

Maryland's Budget Process

**Legislative Handbook Series
Volume IV
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Foreword

The legislature exercises its major role in fiscal policy through the budget process. The budget not only establishes the level of appropriations for the next fiscal year but indicates the spending priorities and policies of State government.

This volume has been prepared to assist the members of the Maryland General Assembly in understanding the budget process and to aid in the exercise of their individual and collective judgment on budget issues. It is not intended to be a definitive legal analysis of the process or a procedures manual, but rather a primer for members of the legislature. The study is based on the policies and procedures in effect at the 2002 Session of the General Assembly.

This is one of nine volumes of the 2002 Legislative Handbook Series prepared prior to the start of the General Assembly term by the staff of the Office of Policy Analysis, Department of Legislative Services. The material for this volume was assembled and prepared by Matthew Klein, Terri Bacote-Charles, Steve McCulloch, and was reviewed by David Juppe, Claire Rooney, and Warren Deschenaux. The manuscript was prepared by Judy Callahan and Kim Landry.

The Department of Legislative Services trusts that this volume will be of use to all persons interested in the Maryland State government. The department welcomes comments on ways future editions may be improved.

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Annapolis, Maryland
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Chapter 1.

Introduction to the Maryland State Budget Process

Taxes and spending – the essence of State fiscal policy – are key issues facing the Governor and legislature each year. These matters are addressed through formulation of the State’s operating and capital budgets. Decisions respecting the operating budget bear directly on the services to be provided to the citizens of the State and the level of taxation required to provide such services. Likewise, decisions respecting the capital budget determine the quality of the State’s infrastructure and the extent to which its costs will be financed by more State debt.

The first part of this book addresses the State’s operating budget. Chapter 2 provides an overview of the process and explains the limited role of the legislature. Chapter 3 addresses how the budget is formulated within the executive branch. Chapter 4 examines the role of the legislature in approving the budget, while Chapter 5 considers how budget implementation is monitored.

The next part of the book is concerned with capital budgeting and the use of State debt. Chapter 6 discusses general obligation bond debt and the various other types of State debt. Chapter 7 covers the types of projects provided for in the State capital program. Chapter 8 provides details about developing a capital budget and the influence of the State’s debt affordability process on the overall size of the capital budget.

As these chapters are considered, it is important to keep in mind that fiscal decisions simultaneously involve three aspects of any budget. These are:

- ***Affordability*** relates to the overall level of expenditures to be authorized. Affordability is determined by available resources and citizen preferences as to levels of taxation. Maryland’s Capital Debt Affordability and Spending Affordability committees address affordability in terms of the State’s capital and operating budgets. This aspect of budgeting is the focus of those interested in the State’s creditworthiness, like bond holders and the national bond rating agencies.
- ***Allocation*** relates to the distribution of available resources among competing public goods. In Maryland’s budget process, the Governor has considerable opportunity to support certain policy objectives by giving them funding priority. While this most frequently occurs through the allocation of spending increases, it can also occur in a zero sum sense with money being withdrawn from one purpose in order to support another.

- ***Particularity*** relates to the specific items (personnel, contracts, or goods) to be applied to each of the specific activities supported by the budget. By acting on the particulars of the budget through its power to reduce or restrict appropriations, the legislature can affect not only the activities touched, but also, in aggregate, both the affordability and the allocation of funds in the budget.

As the reader considers the State's budget process, it is also important to be aware that a cautious fiscal culture has evolved in Maryland. Having earned a AAA bond rating, the State makes few important decisions without considering the potential impact on that treasured status. Many of the procedures described in this volume have helped maintain Maryland's credit rating.

Chapter 2. Operating Budget Overview

Formal Powers

Article III, Section 52 of the Constitution of Maryland establishes the respective powers of the Governor and the General Assembly in adopting the operating budget and provides a schedule for its submission and approval. (See Appendix 1.) Further law pertaining to the operating budget is set forth at § 7-101 et seq. of the State Finance and Procurement Article (see Appendix 2).

Governor

Under the constitution, the Governor must submit a budget to the General Assembly on the third Wednesday in January (or by the tenth day of session in the first year of a term). The budget consists of a detailed statement of revenues and intended spending and a bill making the appropriations proposed. The budget must be balanced when submitted. In other words, the proposed appropriations must be supported by estimated revenues.

After submission of the budget bill, the Governor may change proposed appropriations by submitting one or more supplemental budgets. Supplemental budgets permit the Governor to correct errors and omissions in the original budget. Supplemental budgets are also used to reallocate funds deleted by the General Assembly. Although customarily accepted, supplemental budgets may only be attached to the budget by consent of the legislature.

Legislative Powers

Under the constitution, the budget bill is introduced in both houses. By custom, the House and Senate move the bill in alternate years. In the 2003 session the bill will start in the House.

In acting on the budget bill, the legislature may not amend the budget to increase the amounts allowed to units of the executive branch nor may it transfer funds from one unit to another. Funding may be increased for legislative and judicial branch agencies, however.

The legislature's main power is to reduce or delete appropriations proposed in the budget bill. The legislature may also add language to the budget bill making appropriations contingent or conditional or restricting how funds may be applied.

Appropriations for debt service, statutorily mandated support for public schools, and salaries of constitutional officers may not be reduced.

The legislature must complete action on the budget by the eighty-third day of session. If this is not accomplished, the Governor must issue a proclamation extending the session if a budget is not passed by the ninetieth day. Unlike other bills, the budget is enacted upon passage. The Governor's signature is not required. Moreover, the budget is not subject to veto.

In addition to budget action, the legislature may affect the level of State expenditures through what is known as a supplementary appropriation bill. Under this type of legislation, the legislature raises a tax and directs its revenues to a particular purpose. Supplementary appropriations may only be considered after enactment of the budget bill, and unlike the budget bill, a supplementary appropriation is subject to veto. Bond bills are considered supplementary appropriation bills.

Budget Process

The budget process is not confined to the legislative session. It is continuous; State government is always at some point in the process. The cyclical nature of the budget process, which may be viewed in three stages – formulation, enactment, and execution – is shown in Exhibit 2.1.

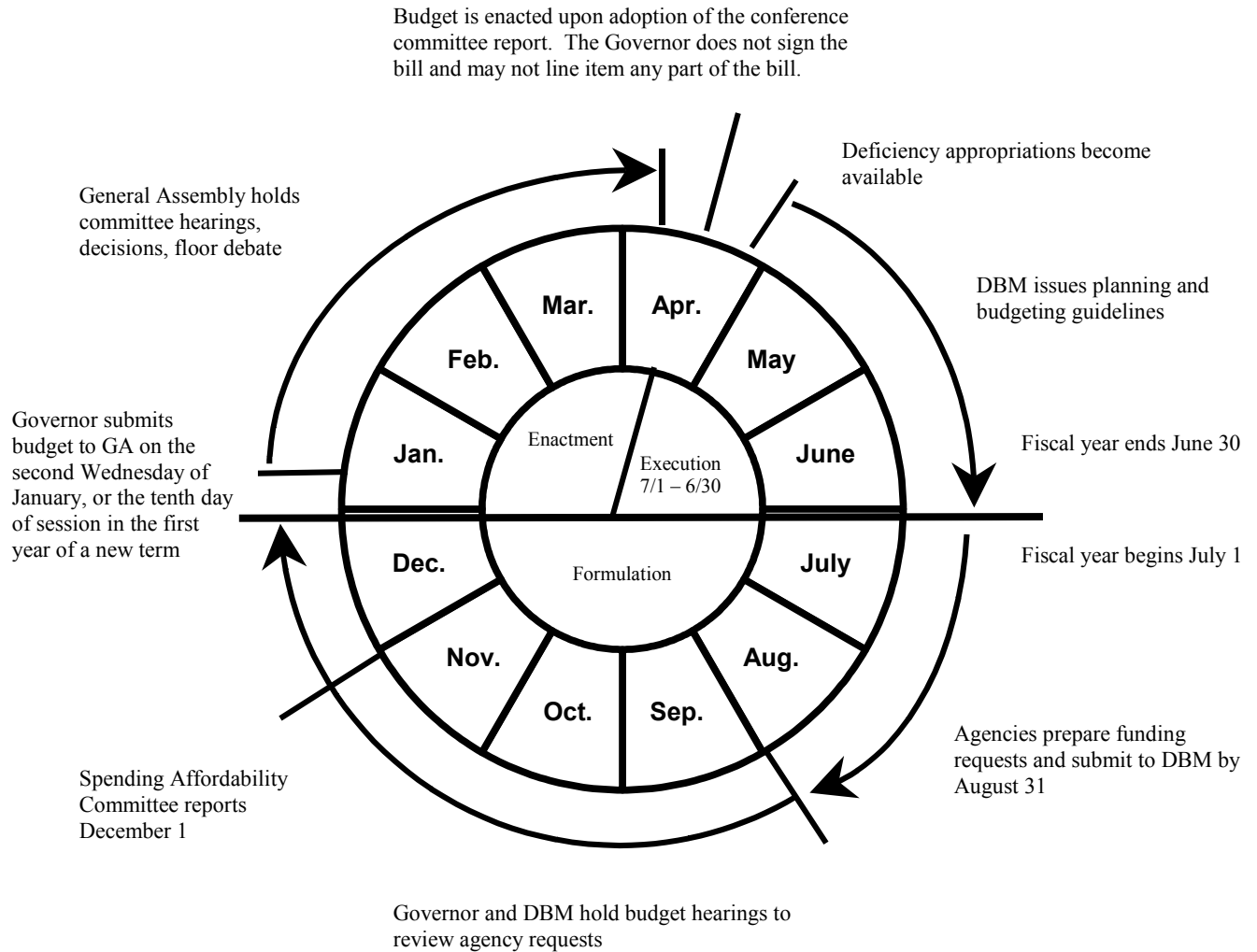
Formulation

Development of the budget is primarily an executive branch task. The Department of Budget and Management supervises the executive budget making process.

The process starts about 15 months before the start of the budget year (e.g., planning for the fiscal 2003 budget starting July 1, 2002, began in April 2001). At this time, the Department of Budget and Management develops instructions for use by agencies in preparing their budgets and develops a maximum request ceiling for each agency.

Agencies are directed to submit budget requests within their ceilings to the Department of Budget and Management in late summer. At that time, agencies may also request additional funds for new or expanded programs “over the ceiling.” In the fall, Department of Budget and Management staff review the budget request and “over the ceiling” items and recommend to the Governor various enhancements, reductions, or no changes to the budget request.

Exhibit 2.1 The Budget Cycle



DBM – Department of Budget and Management
GA – General Assembly

Source: Department of Legislative Services

Final decisions on the budget are not typically made until late December. This is because the Board of Revenue Estimates does not report its estimate of revenues to be available in the budget year until mid-December. In addition, the legislature's Spending Affordability Committee, which advises the Governor as to its spending limit, also does not report until December. Because of time required to physically produce the budget, however, final decisions cannot be delayed much beyond January 1. The budget amounts approved by the Governor for each program and included in the budget are known as the "allowance."

After introduction of the budget, Department of Budget and Management staff monitor legislative action. As appropriate, supplemental budgets are submitted for legislative consideration.

Legislative Consideration

Through its spending affordability process, the legislature offers input into the fiscal policy used by the Governor in making the budget. Under this process, a statutory committee meets each fall to consider the condition of the economy and the State's fiscal health and to recommend to the Governor the amount by which State government spending should be allowed to grow in the upcoming budget. By law the Governor is not bound by this limit. However, if the proposed budget exceeds the limit, the Governor must explain why in the budget message.

The General Assembly reviews the budget bill containing the Governor's allowance during the 90-day legislative session. The bill (and any supplemental budgets) is referred to the budget committees of the respective houses: the House Committee on Appropriations and the Senate Budget and Taxation Committee. The committees separately but concurrently hold about six weeks of hearings on the budget. Hearings are focused on one or more agencies per day. At the hearings, the committees receive recommendations from the staff of the legislature's Department of Legislative Services, Office of Policy Analysis and the agencies' responses. Testimony from the public is sometimes received as well. Although the budget bill is introduced in both chambers, the Senate and the House by custom alternate in moving the budget. At the conclusion of the hearings in the house moving the bill, the budget bill is reported to the floor and follows the course of legislation. When the General Assembly approves the budget bill, the allowances contained therein become appropriations for the next fiscal year (beginning July 1).

Funding Sources

Before beginning a more detailed description of the budgetary process, it is important to distinguish among the various types of funds contained in the operating budget.

General Funds

The general fund consists of any revenues collected by the State that are not dedicated by law to a specific purpose. The individual income tax, retail sales tax, and State Lottery are the three largest sources of general fund revenue. Although statutes mandate minimum funding levels for certain programs, the Governor has substantial discretion in the allocation of general funds in the budget. The fiscal 2003 budget appropriated \$10.6 billion in general funds.

Special Funds

Special funds consist of revenues collected by the State, the use of which is statutorily limited to certain purposes. Special funds may be derived from fees (e.g., car and boat registration and child support applications), taxes levied for a specific purpose (e.g., State property taxes, motor fuel and vehicle taxes, and property transfer tax), local government payments for services, and gifts or donations. Special fund appropriations in fiscal 2003 totaled \$3.9 billion.

Federal Funds

Federal funds are made available to State and local governments under programs administered by agencies of the United States Government. Federal grants are classified as block grants or categorical grants. Block grant funds typically have fewer federal restrictions associated with their use than categorical grant funds, which generally are limited to the specific purposes authorized by law or federal agency rules. In most instances federal funds must be matched by State funds (general or special) in a prescribed ratio. Medicaid and highway construction are two activities that particularly rely on federal funds. The federal fund appropriation in fiscal 2003 totaled \$5.2 billion.

Higher Education Funds: Current Restricted and Unrestricted Funds

Since 1986, budgets for the public institutions of higher education are requested in terms of current unrestricted and current restricted funds, rather than general, special, or

federal funds. Current unrestricted funds are defined as those funds received by a university or college for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. Therefore, the institution may use such funds in any fashion it deems appropriate. Unrestricted revenue sources typically include such items as tuition and fee revenues, sales and services from auxiliary enterprise operations, and federal fund indirect cost recoveries. Unrestricted revenues also include State funds appropriated to the institutions. The current unrestricted fund appropriation in fiscal 2003 totaled \$2.1 billion including \$967.3 million in general funds and \$6.3 million in special funds.

Current restricted funds are those received by the institution for which some stipulation is imposed by the donor, or other external entity, which limits the expenditure of the funds to a specific purpose. Restricted funds in higher education are primarily related to research contract and grant activity and to student financial aid programs. The current restricted fund appropriation in fiscal 2003 totaled \$716.9 million.

In addition to the four major funding sources, there are several other types of funds.

Reimbursable Funds

Reimbursable funds represent payments received by a State agency for services it provides to another State agency. The budget of the agency providing the service contains the salaries and the other expenditures necessary to carry out the service, but the agency does not receive an appropriation for these expenditures. The actual appropriation is contained in the budget of the agency that “purchases” the services. The use of the term “reimbursable” indicates that these funds are not included in the total of budgeted funds – otherwise they would be counted twice, and the budget would be distorted. Appropriations for reimbursable funds totaled \$297.7 million for fiscal 2003.

An example of an agency that receives reimbursable funds is the Technology Support and Computer Center, which is under the aegis of the Comptroller. The budget bill indicates that funds are appropriated in various user agencies’ budgets to pay for data processing services, and grants authority to the computer center to use receipts from data processing services as funds to cover operating expenses. There is no appropriation to the computer center. However, a using agency’s budget will include an appropriation for data processing, and these funds are expended by being transferred to the computer center.

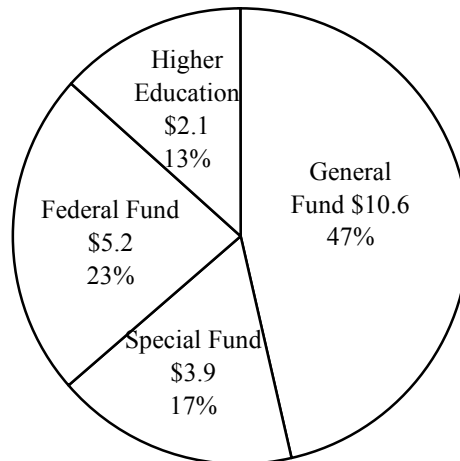
Nonbudgeted Funds

Nonbudgeted funds refer to funds that are not appropriated through the budget process to the agency receiving and spending these monies. Because they are not appropriated, they do not appear in the budget bill, although information on certain of these funds may be provided in the State Budget Books issued by the Governor. An agency may be “off budget” because it is not an integral part of the State government or because it was created as a public authority that issues revenue bonds, and the trust agreements with the bondholders provide that the agency’s expenditures not be subject to the State appropriations or budgetary process. Examples of nonbudgeted agencies include the following:

- the Maryland Automobile Insurance Fund, which provides automobile insurance to “high risk” drivers and pays claims involving uninsured motorists. The income is from insurance premiums, investment earnings, and judgments (calendar 2002 estimated budget for administration was \$39.3 million); and
- the Maryland Transportation Authority, which has an estimated budget from toll revenues and bond proceeds of \$140.7 million for its operating program in fiscal 2003 and another \$208.4 million for its capital program.

The total State budget is a composite of these fund types, most of which are appropriated each year in the budget bill. Exhibit 2.2 presents the fiscal 2003 budget by fund source. An individual agency budget may have only a single funding source, while others draw from a variety of sources.

Exhibit 2.2
Maryland State Budget by Fund Source
Fiscal 2003
(\$ in Billions)



Source: Department of Legislative Services

Chapter 3. Maryland State Operating Budget: Formulation

The formulation of the new budget commences during the spring of the previous year. In the nine months preceding introduction, each agency receives instructions as to how to request funds and how much to request, has its request reviewed by the Department of Budget and Management, and receives an allowance reflecting the decision of the Governor. Exhibit 3.1 and the following material elaborate the budget formulation process.

Agency Budget Request Development

Maryland uses a “fixed ceiling” budget formulation that allows the Governor to designate the maximum amount an agency can request in its next budget.

The ceilings allocated to each State agency reflect a comparison of the estimate cost of maintaining current programs and services, along with any mandated expansions or additions, to the expectation for revenues in the year ahead.

At this point the Secretary of Budget and Management distributes the departmental allocations. Agency heads are then responsible for distributing the departmental request ceiling among the programs. If a departmental secretary is able to bring the total budget under the level of the request ceiling by finding program savings in some areas of the department, the Secretary may redistribute the savings among other programs. This provides an incentive to find cost saving measures within the budget. It also allows some enhancements to be funded within the request ceiling based on the level of cost savings identified.

While the request ceiling limits the level of funding requested by each agency, it does not usually represent the allowance that the agency will eventually receive. There are a number of items that are funded outside of the request. Among these items might include: cost-of-living salary increases for State employees; other salary increases for certain categories of State employees; PAYGO capital projects;¹ statewide facilities renewal; and program enhancements. These items are usually added to departmental budgets based on updated revenue estimates, executive priorities, identified needs, and other factors.

¹ See page 73 for an explanation of PAYGO funding.

Exhibit 3.1 Operating Budget Formulation

	<u>Agency</u>	<u>Executive</u>	<u>Legislative</u>
March – April	Reviews goals and objectives and identifies future needs.		
May – June		DBM reviews current needs and develops agency request ceilings. Governor approves request ceilings consistent with administration priorities.	General Assembly selects programs and issues for interim review. Report by DLS on the extent to which the prior budget conformed to Spending Affordability Report.
July – August	Allocates request ceiling and formulates the budget within limits and guidelines.		
September	Submits detailed budget to DBM.		DLS prepares September forecast of budget for Spending Affordability Committee and begins analysis of major issues.
October	Reviews budget requests with DBM.	DBM reviews budget requests and meets with each agency on its budget request.	DLS receives budget requests from DBM.
November – December	Formulates supplemental and deficiency budget items as necessary.	DBM makes recommendations to Governor for final approval. Board of Revenue Estimates submits revenue projections which are used by the Governor in the final preparation of the budget.	Report by the Spending Affordability Committee submitted to Governor and Legislative Policy Committee. DLS receives advance budget allowance data on a confidential basis and begins analysis and preparation of written recommendations.

Abbreviations: DBM – Department of Budget and Management
DLS – Department of Legislative Services

Source: Department of Legislative Services

Agency Budget Request Structure

Agency budget requests are submitted by program and object classification, which are further broken down into subprograms and subobjects. It is important to understand these terms in reference to the budget.

Programs

The term program applies to the “work program” for accounting purposes. This is usually the level at which the General Assembly enacts appropriations. Programs are set up by the Department of Budget and Management. The Comptroller’s office establishes an accounting structure for each agency, which is called the State Chart of Accounts. This structure permits expenditures to be charged against the correct program and fund. Programs for higher education institutions are consolidated into a single appropriation in the budget bill rather than specifying each program. Nevertheless, each institution must continue to prepare and submit its budget by program. Exhibit 3.2 provides an explanation of the code classification system.

“Work programs” are primarily related to the operating functions of an agency. Thus, the work program encompasses such specific functional areas as “general operations,” “field operations,” “operations support,” “services and institutional operations,” or other areas relating to the nature of the agency. The “work programs” in the budget are quite stable, although they may be changed, deleted or added to, as required by the Governor, by law, or by legislative request.

Subprograms

Subprograms may be used to define activities required to accomplish specific goals. The concept of a “subprogram” in this sense includes the resources required to solve a problem or to deliver a service. Subprograms are oriented to the goals, objectives, and accomplishments to be attained for a given expenditure level.

Subprograms are most often found in programs that have multiple goals and objectives or serve large and diverse populations. A good example of this would be the Medical Care Provider Reimbursements in the Department of Health and Mental Hygiene. Among some of the subprograms in this program are: Nursing Homes, Pharmacy Assistance, Personal Care, and Utilization Reviews. Another good example of subprograms is found in the Forest and Parks Administration of the Department of Natural Resources. Each and every State park is a subprogram of a particular regional park program.

Exhibit 3.2
State of Maryland
Code Classification for Budget and Accounting Procedures

The system of coding consists of eight letters and digits which are required to provide five areas of identification, namely:

D 16 A 06 02

1. Major purpose or functional classification
2. Financial Agency.....
3. Agency or department classification
4. Unit of organization classification
5. Work Program

1. Major Purpose or Functional Classification Code Number

Example: Executive and Administration.....D

The first letter will identify the “Major Purpose or Functional” classification for which the budget allowances are made available.

2. Financial Agency

Example: Secretary of StateD16

These two numbers, together with the previous letter uniquely identify each State government entity.

3. Agency or Department Classification

Example: Executive Department.....D16A

This letter will identify the “Agency or Department” classification of expenditures.

4. Unit of Organization Classification

Example: Secretary of StateD16A06

These two digits will identify the “Unit of Organization” classification. In small agencies there may be only one unit of organization.

5. Work Program Classification

Example: Division of State DocumentsD16A0602

The last two digits will identify the “Work Program” classification. This is the level of appropriation in the budget bill, except for higher education institutions.

Source: Department of Legislative Services

Objects

The expenditures are detailed by object classifications which categorize the specific inputs to be purchased or payments to be made with the appropriation to support the purpose of the program or subprogram. Most of the State budget is captured in salaries and wages (which represents the cost of the regular workforce), contractual services (which represents purchased services, including Medicaid provider payments), grants, subsidies and contributions (which include aid to local governments), and land and structures (which captures capital spending and major facility maintenance costs). There are 13 object classifications, which are listed below:

- .01 Salaries, Wages and Fringe Benefits
- .02 Technical and Special Fees
- .03 Communications
- .04 Travel
- .06 Fuel and Utilities
- .07 Motor Vehicle Operations and Maintenance
- .08 Contractual Services
- .09 Supplies and Materials
- .10 Equipment - Replacement
- .11 Equipment - Additional
- .12 Grants, Subsidies, and Contributions
- .13 Fixed Charges
- .14 Land and Structures

Subobjects

Each object classification in agency budget submissions is further subdivided into subobjects. Subobjects provide more specific information concerning the cost structure

of the budget. For example, object code .03 - Communications is divided into subobjects, as follows:

- .0301 Postage
- .0302 Telephone
- .0303 Telecommunications
- .0304 Miscellaneous Communication Charges
- .0305 Department of General Services Paid Telecommunications
- .0322 Capital Lease (Telecommunications)
- .0395 Corporate Purchasing Card

A listing of all statewide subobjects is provided in Appendix 3.

Budget requests are developed in this detail level under language provided in each prior year's budget bill. Since 1982, the General Assembly has stated in the budget bill its intent that all budgets be developed at the subobject level of detail and be available on the Department of Budget and Management's automated data system.

Budget Preparation and Submittal

Around the middle of June, a letter from the Secretary of Budget and Management is sent to State agencies outlining the Governor's fiscal policies for the forthcoming year (see Appendix 4). Attached to the letter are supplemental instructions for the preparation and submission of the operating budget. This attachment includes sample formats to provide back-up information on various classifications (e.g., Food, Fuel and Utilities, Motor Vehicles, and Data Processing Equipment); standard rates pertaining to such items as furniture and cars; and inflationary factors to be applied at the object and/or subobject level. Agencies are allowed to deviate from the prescribed rates but must justify the deviation.

During July and August, each agency prepares its budget request indicating the source of funding for the expenditures for each program. Since the General Assembly may not add to the Governor's recommended allowance, this is the time period when legislators and advocacy groups attempt to get departments or agencies to include in the original budget request funding for particular projects of interest to them.

The requests are submitted to the Department of Budget and Management electronically or on paper by the end of August. This information is accompanied by budget forms which provide a detailed explanation for items requested in the budget. The amount of data and the budget detail included varies according to the size and complexity of the agency submitting the budget request. As a courtesy, the Department of Budget and Management provides the supporting data and budget requests to the Department of Legislative Services.

Managing for Results

In response to recommendations by the Legislative Auditor that strategic planning results and measurement data be included in the budget, the Department of Budget and Management initiated a statewide strategic initiative known as Managing for Results beginning with the fiscal 1999 budget submission. This executive branch strategic planning process is intended to institute performance measurement techniques for all State government programs.

Agencies are responsible for developing the following aspects of the Managing for Results process for each program appropriated in the annual budget bill:

- Mission – a short comprehensive statement of the reason for the organization's existence, succinctly identifying what an organization does (or should do), and for whom it does it.
- Vision – a brief compelling description of the preferred, ideal future, including the conditions and quality of life.
- Key Goals – the general ends toward which an organization directs its efforts. Goals clarify the mission and provide direction but do not state how to get there.
- Objectives – specific and measurable targets toward the accomplishment of a goal. Agency objectives should be attainable and time bound.
- Strategies – specific courses of action that will be undertaken to accomplish goals and objectives. Strategies reflect budgetary and other resources.
- Performance Measures – the system of customer-focused, quantified indicators that let an organization know if it is meeting its goals and objectives. There are five categories of performance measures: efficiency, input, outcome, output, and quality. Outcome measures should be reported for each program and agency. An

appropriate and balanced mix of performance measures should be submitted for each program.

For each agency, after being reviewed by the Department of Budget and Management's Office of Budget Analysis, these elements (with the exception of strategies), are published along with summary budget data in the annual State Budget Books.

Spending Affordability

During the late 1970s and early 1980s, the General Assembly considered proposals to control the growth of the operating budget. The proposals were similar to limitations on expenditures and/or taxes enacted in other states. The thrust of the proposals was to use certain economic indicators to tie the growth of ongoing State spending to the growth in the Maryland economy. The result of these deliberations was the creation of the Spending Affordability Committee during the 1982 session. The committee is composed of the President of the Senate, the Speaker of the House, majority and minority leaders of the Senate and the House, the chairmen of the four standing fiscal committees, and other members selected by the presiding officers. In recent years, the committee has consisted of 18 legislators and has been assisted by an advisory committee of private citizens.

The Department of Legislative Services prepares a "September Forecast" for the committee that contains an estimate of projected revenues and expenditures for the upcoming fiscal year. The committee reviews these projections and the status of the State economy. By statute, the committee must report to the Legislative Policy Committee by December 1 of each year with recommendations for fiscal goals for the budget to be considered at the next session of the General Assembly. This report includes the following types of recommendations:

- a level of State spending;
- a level of new debt authorization;
- a level of State personnel; and
- the use of anticipated surplus, if any.

The committee may make other appropriate findings and recommendations. By statute, if committee recommendations with respect to State spending exceed the annual increase in relevant economic indicators, the committee must provide an analysis as to

the extent the recommendations exceed such indicators. Similarly, if the Governor submits a budget request in excess of the amounts recommended by the Spending Affordability Committee, the Governor must explain the rationale for exceeding the recommendations. The budget committees must also provide an explanation for any amounts exceeding Spending Affordability Committee recommendations that are presented to the Senate and House of Delegates for consideration.

Recommendations for State Spending

For the purpose of spending affordability, State spending has traditionally been defined as general, special, and higher education appropriations less capital appropriations, higher education restricted appropriations, and State Use Industries appropriations. Prior to the 2002 session, the Spending Affordability Committee adopted changes to the methodology used for calculation of the spending affordability limit. Among the changes was the inclusion of ongoing or multi-year general fund PAYGO and general fund PAYGO additions to the State capital improvement plan in the spending limit, and a “true-up” of base costs for transportation and higher education. New exclusions were also adopted for fiscal 2003 for homeland defense costs, payment of fiscal 2001 Medicaid and mental health bills, and enterprise activities at Baltimore-Washington International Airport, the Port Administration, and the State Lottery Agency. The methodology has been determined to be the best measure of State expenditures for operating purposes. Deficiency appropriations are also counted as new spending under spending affordability.

The committee’s primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State’s economy. Consideration is given to constraining disproportionate growth in State funding expenditures in any fiscal year which might necessitate or “build in” unsupportable levels of spending in future years. Thus, especially during periods of strong economic growth, the committee has attempted to exert a “smoothing effect” on spending by limiting increases relative to the level of growth in the economy. In recent years, the committee has also been concerned with assuring a sound financial basis during a period of modest economic growth.

The committee has often used growth in personal income as a proximate measure of the State’s economic growth and as a guide for the increase in State spending. To clarify that it is the committee’s intent to coordinate the growth in appropriations with anticipated economic growth in the next fiscal year, this report relates budget growth directly to economic growth expected during the budget year.

Compliance with the recommendations of the Spending Affordability Committee with respect to State spending has generally been good. The budget enacted by the

General Assembly has only exceeded the committee's recommendation once. For fiscal 1985 the Governor's original budget was within spending limits; however, a supplemental budget in excess of \$90 million was introduced and subsequently enacted. The Governor had proposed that the supplemental budget be funded from anticipated reductions in expenditures due to pension legislation, whereas the legislature approved fund transfers due to uncertainty over whether the anticipated reductions would be achieved. The enacted budget for fiscal 1985, therefore, exceeded the recommended limit by approximately the amount of the supplemental budget. Also, the committee did not make a recommendation for the fiscal 1993 budget because of the financial difficulties being faced by the State at the time. Exhibit 3.3 displays the history of compliance with the Spending Affordability Committee's recommendations on State spending.

Other Recommendations

The Spending Affordability Committee is charged with making other recommendations with respect to the State budget policy. One of these recommendations is the level of debt authorization for the upcoming session. In determining the level, the committee has considered the report of the Capital Debt Affordability Committee and the recommendation of the Joint Audit Committee.

With respect to State personnel, the committee has recommended in recent years that budgets should allow no net increase in the combined number of regular and contractual positions except as required: (1) to address reasonable requirements of public institutions of higher education due to increased enrollment; (2) to operate new facilities approved by the General Assembly; (3) to provide for an appropriate level of staffing in agencies responsible for maintaining public safety; and (4) to assure an adequate staffing for successful implementation of programs to assist the State's special needs populations. In light of a weakening economy and in an effort to help resolve the structural budget gap, the Spending Affordability Committee in its December 2001 report recommended that the creation of new positions during the fiscal 2002 session be limited to: (1) critical public safety and homeland security needs; (2) facilities scheduled to open in fiscal 2003; and (3) addressing workload increases in higher education and essential services at 24-hour facilities.

Exhibit 3.3
History of Compliance with Spending Limits
Fiscal 1983-2001
(\$ in Millions)

<u>Session Year</u>	Committee Recommendation		Legislative Action	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth Rate</u>	<u>Amount</u>
1982	10.18%	\$431.9	9.62%	\$412.8
1983	9.00%	428.0	5.70%	269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800.0
2001	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	467.2

*2000 legislative action does not reflect \$266 million of Cigarette Restitution Fund (CFR) appropriations. CFR dollars were excluded from the calculation during the 2000 session because they had not previously been available to the State. The 2000 growth rate including CFR dollars was 9.16%.

Source: Department of Legislative Services

With respect to the use of surplus funds, the committee has traditionally recommended that funds received in excess of the recommended spending levels not be expended but be allowed to remain in the general fund balance or be used for one-time only expenditures. Priority has been given to PAYGO capital appropriations which reduce demand for future bond financing or critical items. However, a structural deficit between State spending and estimated revenues resulted in a recommendation by the committee to prudently use the Revenue Stabilization Fund (“Rainy Day Fund”) to address the general fund needs of the State in the fiscal 2003 budget. In past years, the committee has also made recommendations addressing the tobacco settlement funds, Medicaid deficiency, insufficient federal Temporary Assistance to Needy Families funding, and the debt capacity of the Transportation Trust Fund. See Appendix 5 for the recommendations of the 2001 Spending Affordability Committee and Appendix 6 for the Department of Legislative Services report concerning the extent to which the fiscal 2003 budget, as enacted by the General Assembly, conformed to the recommendations.

Changes in the Budget

Over a period of years, the budget documents change to reflect modifications made in State government. Programs are developed and added to the budget, and older programs that are unneeded are sometimes terminated. Methods are constantly being sought to display the State budget in a more meaningful format and to simplify organizational relationships. Agencies under one department may be transferred to another department which is more appropriate for use of the personnel and services. Activities not included in the State budget may be brought into the budget to permit more executive control, better legislative oversight, and more accurate accounting of agency funds.

All of these changes introduce complications into any analysis of budget data. When programs change by absorbing other programs, or by giving up portions of programs to other agencies, year-to-year comparisons suffer. Thus, it is not enough to measure the change in budgeted sums from year to year. Any meaningful analysis must also explain and qualify the data on the basis of changes in organization, format, or nomenclature.

For example, in 1997, functions of the Department of Personnel were assumed by the Department of Budget and Fiscal Planning. A new Department of Budget and Management was created. The reorganization also merged the Office of Telecommunications in the Department of General Services with the Office of Information Technology. This change centralized the study and analysis of the needs, administration, organization, functions, economy, efficiency, and performance of State agencies.

State Budget Books

Beginning in September after receipt of the agencies' budget requests, the Department of Budget and Management initiates its budget review activity that culminates in the production of the State budget by the beginning of January. Analysts in that department review the requests, the Governor or his designee holds hearings with the agencies, and the analysts make recommendations to the Governor as to the amount that should be appropriated to each agency.

The budget is actually constructed piece by piece as the Governor meets with the staff and considers the recommendations. The smaller agencies and those with little or no changes are considered first. The larger agencies and those with significant changes and large fiscal issues are completed last. Completed summary allowance sheets are assembled in budget code sequence and printed as the State Budget Books. In fiscal 2003, the budget books were issued in four volumes: three volumes for the operating budget and one for the capital budget. These are the principal supporting documents of the budget bill.

The budget books also include Managing for Results information. For each agency, after being reviewed by the Department of Budget and Management's Office of Budget Analysis, each of the Managing for Results elements (with the exception of strategies) is published along with the budget data in the budget books.

The budget books show the details of expenditures by object classification for the past, present, and next fiscal year. Also shown are the sources of funds (general, special, or federal) expended by the agency, and summaries of capital expenditures. An example of the program detail is shown in Exhibit 3.4.

The budget books also contain the "personnel detail" for the State. The personnel detail is sequenced so that within each program, positions are first divided into eight standard job categories (officials and administrators, professionals, technicians, protective service workers, paraprofessionals, office and clerical, skilled craft workers, and service/maintenance). Within categories, classifications are then arranged in descending order of the classification base salary. After each class of position is the number of positions per class, together with the total salary required for the previous, current, and next fiscal year. An example of the personnel detail is shown in Exhibit 3.5.

Exhibit 3.4
Example of Program Appropriation Detail
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

SA20.03 OFFICE OF MANAGEMENT SERVICES-OFFICE OF THE SECRETARY

Appropriation Statement:

	2001 Actual	2002 Appropriation	2003 Allowance
Number of Authorized Positions.....	34.00	25.00	25.00
Number of Contractual Positions.....	5.40	5.40	5.40
01 Salaries, Wages and Fringe Benefits.....	1,994,617	1,886,807	1,584,868
02 Technical and Special Fees	189,304	248,619	189,871
03 Communication.....	28,956	28,145	23,558
04 Travel.....	30,375	29,946	24,087
08 Contractual Services	265,184	301,215	287,683
09 Supplies and Materials.....	19,506	31,800	30,624
10 Equipment—Replacement	9,806	1,727	1,727
11 Equipment—Additional.....	1,020		
12 Grants, Subsidies and Contributions	50,277	31,722	42,022
13 Fixed Charges	4,907	9,165	8,136
Total Operating Expenses	410,031	433,720	417,837
Total Expenditure.....	2,593,952	2,569,146	2,192,576
Original General Fund Appropriation.....	776,766	924,304	
Transfer of General Fund Appropriation	125,700	-25,228	
Total General Fund Appropriation.....	902,466	899,076	
Less: General Fund Reversion/Reduction.....	74		
Net General Fund Expenditure.....	902,392	899,076	733,843
Special Fund Expenditure	1,578,195	1,532,046	1,330,817
Federal Fund Expenditure.....	97,070	138,024	127,916
Reimbursable Fund Expenditure.....	16,295		
Total Expenditure.....	2,593,952	2,569,146	2,192,576
Special Fund Income:			
S00304 General Bond Reserve Fund	899,571	720,968	704,346
S00306 Homeownership Loan Program Fund	78,910	100,892	86,503
S00309 Maryland Housing Fund	315,639	315,288	266,163
S00315 Neighborhood Business Development Fund..	78,910	77,246	7,642
S00317 Rental Housing Loan Program Fund	78,910	126,903	132,465
S00321 Special Loan Program Fund.....	126,255	190,749	133,698
Total.....	1,578,195	1,532,046	1,330,817
Federal Fund Income:			
14.182 Section 8 New Construction/Substantial Rehabilitation.....	97,070	66,279	60,818
14.239 HOME Investment Partnerships Program.....		20,704	19,187
14.855 Section 8 Rental Voucher Program.....		24,568	42,197
14.856 Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation.....		3,740	3,548
Total.....	97,070	138,024	127,916
Reimbursable Fund Income:			
J00B01	16,295		

Source: FY 2003 State Budget Books

Exhibit 3.5 Example of Personnel Detail

PERSONNEL DETAIL

Executive and Administrative Control

Classification Title	FY 2001 Positions	FY 2001 Expenditure	FY 2002 Positions	FY 2002 Appropriation	FY 2003 Positions	FY 2003 Allowance
s00a2003 Office of Management Services						
program mgr iv	3.00	159,176	1.00	81,228	1.00	82,027
administrator vi	1.00	67,772	1.00	73,107	1.00	73,825
program mgr iii	2.00	92,841	2.00	137,318	2.00	138,663
administrator v	1.00		.00	0	.00	0
program mgr ii	3.00	118,589	3.00	199,356	3.00	201,306
administrator iv	2.00	117,581	2.00	126,830	2.00	128,070
personnel administrator iii	1.00	58,793	1.00	63,415	1.00	64,035
program mgr i	4.00	184,612	2.00	123,796	2.00	125,006
hcd community program admin ii	1.00	48,987	1.00	50,455	1.00	50,946
Administrator ii	1.00	48,620	1.00	52,439	1.00	52,949
planner iv	1.00	49,567	1.00	53,460	1.00	53,980
dev oft supv comn assist	2.00	93,711	.00	0	.00	0
personnel officer iii	1.00	46,410	1.00	45,029	1.00	45,465
dev oft ii comn assist	1.00	43,051	.00	0	.00	0
pub affairs officer ii	3.00	122,427	2.00	94,188	2.00	95,102
pub affairs officer ii	.00	0	1.00	40,604	1.00	41,389
admin officer ii	1.00	41,442	.00	0	.00	0
admin officer i	.00	0	.00	0	.00	0
personnel specialist iii	2.00	71,380	2.00	76,896	2.00	77,638
pub affairs specialist i	1.00					
management associate	1.00					
office secy iii	2.00					
office secy iii	.00					
TOTAL s00a2003	34.00					
TOTAL s00a20	66.00					

Source: FY 2003 State Budget Books

Appendices A through P included in the fiscal 2003 State budget books contain the following information:

- Appendix A summarizes the general fund revenues and expenditures of the budget to show that it meets the constitutional requirement of being a balanced budget.
- Appendix B details the estimated revenues by source for the current and next fiscal year.
- Appendix C summarizes the proposed expenditures for the current and next fiscal year for each major unit by source of funds.

- Appendix D summarizes the operating budget by object classification for the current fiscal year and next fiscal year.
- Appendix E shows increases and decreases in regular and contractual positions, summarized by agency.
- Appendix F details a five-year forecast of revenues and expenditures for the general fund, the Transportation Trust Fund, and higher education.
- Appendix G compares the Governor's proposed budget to the recommendations of the Spending Affordability Committee, and if necessary, provides a rationale for exceeding these recommendations.
- Appendix H summarizes budget bill contingent and restrictive language for the next fiscal year.
- Appendix I summarizes recoveries of indirect costs from federal grants and contracts for the previous fiscal year.
- Appendix J summarizes statewide central services cost allocations for the previous fiscal year.
- Appendix K summarizes the share of the State budget providing services to children.
- Appendix L provides a summary of budgeted federal revenues by major federal sources.
- Appendix M details the Cigarette Restitution Fund for fiscal 2001 through 2003.
- Appendix N summarizes funding for major publicly funded programs for the aged that are administered by the State.
- Appendix O summarizes substance abuse treatment costs.
- Appendix P provides a summary of funding for smart growth and revitalization efforts.

It should be noted that the revenue estimates in Appendix B used by the Governor to establish the State budget may differ from those submitted by the Board of Revenue

Estimates, especially if the Governor is proposing changes in revenue statutes or in the method of collecting revenues. The Board of Revenue Estimates presents its report in December, prior to the annual session of the General Assembly. The report contains a revised estimate for the current fiscal year (based on current economic factors and legislative changes) and the budget estimates for the next succeeding year based upon current laws and administrative practices. The current year estimate is made seven months before the end of the fiscal year, while the budget estimate for the next succeeding fiscal year is made 19 months before the end of that fiscal year. It is possible to further revise the revenue estimate. Updated estimates have been made in March in recent years, around the time when supplemental budgets are submitted.

Major Information Technology Development Projects

In accordance with Section 36 of the Fiscal 2002 Budget Bill (Chapter 102, Acts of 2001) the Department of Budget and Management created an additional volume to the budget books for fiscal 2003. The *Major Information Technology Development Projects* volume separately identifies and includes funding detail for major information technology development projects in a manner similar to the capital budget program.

Governor's Budget Highlights

Another important supporting document for the State budget is the Governor's *Budget Priorities*. This book contains specific explanations of the major programs and issues of executive action contained in the budget and presents a general overview of the major departments' budgets, including selected units of measure. The book also contains a listing of State assistance to each of the counties and a "budget in brief" section outlining revenue sources and areas of expenditures, the status of State general funds, estimated revenues, details of general and special funds, and a summary of budgeted operating expenditures and the capital budget program.

The Budget Bill

The Governor submits the budget bill in accordance with the provisions of Article III, Section 52 of the Constitution of Maryland (see Appendix 1). The constitution stipulates that the budget bill must include all appropriations for the legislature, the judiciary, and the executive department and that these appropriations shall provide for an efficient school system, the interest and principal on the State debt, the salaries established by law and by the constitution, and other purposes that may be required by law or by the constitution.

The budget bill is a large bill. Although the bill is introduced independently in both the Senate and the House of Delegates, the printed version of the first reader includes both bill numbers. One house passes the budget bill first in one year and by prearranged schedule the other house passes the bill first in the next year. For fiscal 2003, the budget bill was SB 175. During the 2002 session, the original budget bill proposed a total of \$22.5 billion in appropriations. The original bill is usually altered by one or more supplemental budgets; however, there were no supplemental budgets submitted during the 2002 session.

The budget bill, as presented to the General Assembly by the Governor, has three major parts. The first and largest part contains the specific appropriation proposed for each program of State government for the next fiscal year as well as the “deficiency appropriations” for those units of State government that are judged to require additional funds (general funds for the most part) deemed necessary to complete the current fiscal year.

The second part of the budget bill embraces several sections that provide general directions and limitations pertaining to the expenditure and transfer by budget amendment of the appropriations contained in the first part. This is informally referred to as the “boiler plate.” Included in these sections are the regular and the Maryland Department of Transportation executive pay plans and a listing of nonclassified flat rate or per diem positions (e.g., Governor, Comptroller, Treasurer). Other sections govern the expenditure or allow for the recovery of funds associated with specific purposes, including tort claims, indirect costs, computer usage, administrative hearings, employee retirement, and employee and retiree health insurance. The legislature typically adds additional sections to this part with provisions applicable to multiple agencies.

The third part of the budget bill is the “Budget Summary,” as required by the constitution (Article III, Section 52(5a)). This summary provides figures for the total of all proposed appropriations, including deficiencies, and estimated revenues available each year to pay for the appropriations. For each year, projected revenues must be equal to or greater than the proposed appropriations.

The budget bill is introduced in each house of the General Assembly by the presiding officers on the third Wednesday of January (the eighth day of the session). This date is extended to the tenth day (Friday) every fourth year for the newly elected Governor. Copies of the budget bill and the Maryland State Budget Books are provided to each member. Copies are also made available to State agencies and other government offices.

Chapter 4. Maryland State Operating Budget: Legislative Review and Enactment

The budget process may be viewed in its broadest sense as the principal means by which the elected policymakers – the Governor and the members of the General Assembly – strive to balance an acceptable level of taxation with an acceptable level of spending for governmental services (see Exhibit 4.1). The budget provides a means to deliver services and solve problems for which citizens are willing to pay. At the same time, it is incumbent upon the General Assembly to use the budget process as a means to eliminate inefficiency and waste and to either improve or eliminate those programs or activities that are ineffective or clearly lack citizen approval. Within the budget process, legislative budget review serves an important purpose. It is the General Assembly that has the ultimate responsibility to impose the taxes that finance the costs of State government. Only by a thorough and searching examination of proposed appropriations, agency programs, and operations can the General Assembly perform its duty and function of exercising control over expenditure of public funds.

In acting on the budget (either the original budget or a supplemental budget), the General Assembly may amend the budget to reduce, restrict, or impose certain conditions concerning the expenditure of appropriations but cannot impose a condition that contradicts or circumvents existing law. The constitution prescribes that a bill be confined to one purpose, and the purpose of the budget bill is to appropriate funds for the operation of the State, not to legislate generally (37 Opinions of the Attorney General 121 (1952)). The General Assembly does not have the authority to modify existing law by means of amending the budget bill, otherwise known as “legislating in the budget.” However, the General Assembly may reduce any item of appropriation in the annual budget bill below any minimum level of funding that has been set by statute (65 Opinions of the Attorney General 45 (1980)) with the exception of certain education funding and debt service, and may strike out or reduce items including those items inserted to provide for satisfaction of judgments (68 Opinions of the Attorney General 382 (1983)). The General Assembly may also impose conditions or limitations on an appropriation relating to the expenditure of funds (*Bayne v. Secretary of State*, 283 Md. 560, 574, 1978). Based on *Bayne*, the General Assembly has regularly acted to restrict the expenditure of an appropriation pending review of additional information, certain action by an agency, or the satisfaction of certain conditions.

Exhibit 4.1
Budget Review and Enactment
Legislative Session

	Agency	Executive	Legislative
January	Agencies start to prepare overviews and rebuttals to Department of Legislative Services recommendations.	Governor presents the budget to all members of the General Assembly.	APP and B&T hold separate but concurrent budget hearings with agencies. Legislative Services presents analyses and recommendations at public hearings.
February	At public hearings, agencies respond to issues and recommendations raised by Legislative Services and committee member questions.	Department of Budget and Management reviews and recommends items for supplemental budget(s). Governor approves requests and formulates supplemental budget(s), as necessary.	
March			APP and B&T consider recommendations and prepare written reports of adopted amendments. First house receives committee report, debates amendments, and passes bill with or without supplements. Second house receives bill, refers to committee, receives committee report, debates, amends, and passes budget with supplement(s), if any.
April			Conference committee formed on items lacking agreement. Budget enacted by eighty-third day. Legislative Services finalizes <i>Joint Chairmen's Report</i> for Journal.

Abbreviation: APP – House Committee on Appropriations

B&T – Senate Budget and Taxation Committee

Source: Department of Legislative Services

After introduction of the budget in January by the Governor, the budget bill is processed in the same manner as any other bill, with the notable exceptions that it must be passed by the eighty-third day of the session and is not subject to veto by the Governor. If the budget is not passed by the eighty-third day, the Governor must issue a proclamation extending the session. Due to the size of the budget bill and the number of amendments, the legislature gives this bill priority in scheduling to avoid conflict with other major pieces of legislation.

Shortly after the Governor introduces the budget, the Department of Legislative Services presents a fiscal briefing to the budget committees on the provisions and implications of the Governor's proposed budget. This fiscal briefing is also provided to other Senate and House standing committees. The department highlights the methods of funding the budget, including the estimated financial position of the State at the end of the fiscal year. The briefing highlights new programs and significant program changes introduced in the budget. Revenue assumptions also are discussed as they relate to the financing of a balanced budget. The document also customarily provides an overview of the budget's impact on the Transportation Trust Fund, higher education, the State Reserve Fund, the number of State positions, and local aid. Copies of the Fiscal Briefing Report are available to all members of the General Assembly and published on the Internet.

Budget Analysis – Department of Legislative Services

The Department of Legislative Services is responsible for the oversight of the executive budget (State Government Article, Section 2-1237). During the period April through October, legislative analysts keep abreast of the implementation of the present year's appropriations, while simultaneously watching the budget formulation process for the future year's budget. To accomplish this goal, analysts track budget amendments; engage in interviews and other contacts with the agencies; gather background information pertaining to agency plans, programs, and activities; and perform continuing study and research relating to fiscal issues, taxes, finances, and other matters pertaining to the budget. During November through the early part of February, a major focal point is on budget analysis and development of recommended actions for the budget committees to consider.

Legislative analysts begin the budget analysis process in the fall by meeting with the agencies to review budget requirements. Analysts may collect workload measures, caseload statistics, and historical rates of expenditures to evaluate the need for and effectiveness of agency programs. As the Governor's initiatives are introduced, legislative analysts must evaluate the costs and benefits of each initiative and be prepared to make recommendations regarding the need for, or issues surrounding, these new

expenditures. Once the Governor's allowance is made available in its entirety, legislative staff scrutiny of proposed expenditures culminates in the production of approximately 160 budget analyses, each representing a State government agency or unit within a large department.

The budget analysis is a comprehensive document that examines all facets of agency operations, including changes in proposed funding and personnel. In the late 1990s, the Governor began implementing a strategic planning process known as Managing for Results to place a greater emphasis on performance outcomes. The budget analysis examines each agency's goals and missions, relative to performance, with the intent to link funding with outcomes. It also raises public policy issues, includes recommended budget actions, and provides informative appendices that summarize fiscal activity for the prior, current, and proposed fiscal years.

The first few pages of the analysis document provide an executive summary of the information contained within the document. The first page illustrates operating budget and personnel trends over a three-year period (past, present, and proposed). Additional personnel information lists the number of vacant positions and the budgeted turnover expectancy for the proposed budget year. Subsequent pages provide summaries of major performance trends, policy issues, recommended actions, and updates. Exhibits 4.2 and 4.3 provide a sample of a cover page for a fiscal 2003 budget analysis and one of the standard appendices, which highlight fiscal trend detail.

As these written analyses are completed, copies are provided to the budget committee members, the respective agencies, and the Secretary of Budget and Management. Members of the General Assembly not assigned to the budget committees may receive individual budget analyses on request. After the analyses are completed, they are electronically distributed to every member of the General Assembly at the time the budget bill is reported to the Senate or the House of Delegates. The analyses are ultimately bound in a publication entitled *Analysis of the Maryland Executive Budget*.

The Department of Legislative Services works closely with the Senate Budget and Taxation Committee and the House Committee on Appropriations prior to the session, meeting with these committees to develop the schedule of budget hearings, department overviews, and briefings.

The analysis of each agency is prepared according to the budget hearing schedule. Every effort is made to have the agency's written analysis completed five calendar days prior to the hearing date. In most cases, the analysis is sent to the agency in time for a written rebuttal to be submitted to the committees at the public hearing. The intention of

Exhibit 4.2
Example of Budget Summary
ND.01
Child Care Administration
Department of Human Resources

Operating Budget Data

(\$ in Thousands)

	<u>FY 01</u> <u>Actual</u>	<u>FY 02</u> <u>Working</u>	<u>FY 03</u> <u>Allowance</u>	<u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$40,045	\$40,253	\$39,701	(\$553)	(1.4%)
Special Fund	263	0	0	0	
Federal Fund	100,292	126,408	145,451	19,043	15.1%
Total Funds	\$140,600	\$166,661	\$185,152	\$18,491	11.1%

- A \$12.8 million increase in federal funds will be used to support new regulations expanding the Purchase of Care (POC) child care subsidy program. An additional \$1.6 million will be used toward quality enhancement projects. Also, \$2.4 million for the Office of Credentialing was accidentally double budgeted.
- Cost containment measures reduced the fiscal 2002 working appropriation \$442,144 in general funds, primarily related to the hiring freeze, and \$2.7 million in federal funds, for a total savings of \$3.2 million.

Personnel Data

	<u>FY 01</u> <u>Actual</u>	<u>FY 02</u> <u>Working</u>	<u>FY 03</u> <u>Allowance</u>	<u>Change</u>
Regular Positions	218.00	244.50	244.50	0.00
Contractual FTEs	10.24	0.00	0.00	0.00
Total Personnel	228.24	224.50	244.50	0.00

Vacancy Data: Regular Positions

Budgeted Turnover: FY 03	12.47	5.10%
Positions Vacant as of 12/31/01	18.00	7.33%

- As a result of cost containment, the Child Care Administration (CCA) will have to hold several more positions vacant to remain within the fiscal 2003 allowance.

Note: Numbers may not sum to total due to rounding

For further information contact: Suzanne P. Freed

Phone: (410) 946-5530

Source: Department of Legislative Services

Exhibit 4.3
Example of Fiscal Summary

Fiscal Summary
DHR – Child Care Administration

<u>Unit/Program</u>	<u>FY01 Actual</u>	<u>FY02 Legislative Appropriation</u>	<u>FY02 Working Appropriation</u>	<u>FY01-FY02 % Change</u>	<u>FY03 Allowance</u>	<u>FY02-FY03 % Change</u>
01 General Administration	\$ 32,134,017	\$ 44,518,283	\$ 41,354,519	28.7%	\$ 47,080,958	13.8%
09 Purchase of Child Care	108,466,196	125,306,803	125,306,803	15.5%	138,070,969	10.2%
Total Expenditures	\$ 140,600,233	\$ 169,825,086	\$ 166,661,322	18.5%	\$ 185,151,927	11.1%
General Fund	\$ 40,045,353	\$ 40,695,615	\$ 40,253,471	0.5%	\$ 39,700,829	(1.4%)
Special Fund	262,565	0	0	(100.0%)	0	0.0%
Federal Fund	100,292,295	129,129,471	126,407,851	26.0%	145,451,098	15.1%
Total Appropriations	\$ 140,600,213	\$ 169,825,086	\$ 166,661,322	18.5%	\$ 185,151,927	11.1%

Source: Department of Legislative Services

this practice is to provide formal documentation of the agency's position on recommendations contained in the analyses which will be available for committee discussion at a later date. It also provides a means to pursue other issues (which may not have been addressed in the written analysis) during the limited time available for budget hearings.

Legislative Budget Hearings

Legislative budget hearings are conducted over a six-week period beginning during the third week of the session. Both the Senate Budget and Taxation Committee and the House Committee on Appropriations use a combination of full committee meetings and a subcommittee structure based on grouped policy areas. Both committees will occasionally hold joint subcommittee hearings for budgets that cross their respective policy jurisdictions. Likewise, representatives of the policy committees of the legislature are invited to participate in hearings on matters of joint interest. Regardless of the committee structure or hearing method, both committees use the same analysis prepared by the Department of Legislative Services, and the same legislative analysts provide briefings for each committee.

Committee/Subcommittee Decisions

At the conclusion of the budget hearings, the committees and subcommittees meet to make decisions respecting the items before them. The recommendations made and issues raised in the legislative budget analysis typically serve as a starting point as do questions arising in the budget hearings themselves. Also bearing importantly on the decisions, however, are concerns with the overall fiscal objectives of meeting the Spending Affordability Committee's recommended spending ceiling and maintaining a balanced budget.

Committee decisions may take the form of amending the budget bill to reduce appropriations, add restrictive language, or add committee narrative to the committee report. These types of committee actions are described below.

Budget Reductions

The decisions concerning changes to the Governor's allowance (i.e., the proposed appropriation) are usually made at the work program level. Sometimes the reductions to agency budgets are quite specific (e.g., abolish position number 123456) while other times they may be quite general (e.g., reduce program funding). Also, in some occasions an agency administrator will be allowed the flexibility to distribute a particular reduction among the various units of the agency. Reductions are reflected in the budget bill as

amendments. The committee report explains the action taken in each amendment. Examples of budget reductions as reflected in a committee report are included in Exhibit 4.4.

Budget reductions are sometimes made to items applicable across the budget. To implement these reductions, the legislature commonly adds a separate section to the budget bill which identifies the items to be reduced and stipulates an aggregate amount of savings to be realized. Section 7-213 of the State Finance and Procurement Article delegates to the Governor and the Board of Public Works the authority to allocate such reductions to the appropriate programs of the budget. For example, Section 39 of the Budget Bill for fiscal 2003 reduces expenditures across-the-board for the replacement of personal computers.

Budget Bill Language

In addition to reductions in the amount of appropriations, the committees may also propose language for inclusion in the budget bill placing limitations on the expenditure of funds or expressing legislative intent as to the use of funds. (As previously noted, the General Assembly may not impose a condition that contradicts or circumvents a law.) This action, known as adding budget bill language, becomes law for one year as the budget bill is only in effect through the end of the fiscal year. Exhibit 4.5 is an example from the fiscal 2003 budget bill.

Committee Narrative

At times, the budget committees wish to express legislative intent or request a department to perform certain studies or report on particular issues during the interim. This is usually written as “committee narrative” in the chairmen’s report of the budget committees’ action (see Budget Committee Reports and Actions which follows). This does not have the effect of law nor does it require agreement to the language on the part of the entire House and Senate. However, for committee narrative to appear in the joint report, both budget committees must agree on the wording. Should agreement not be reached, a chairman may send a letter to a department stating the committee’s intent. Usually a department feels obligated to respond to the committee narrative or request.

Exhibit 4.4 Examples of Reductions

	<u>Amount Reduction</u>	<u>Position Reduction</u>
1. Delete positions that have been vacant for one year or more. The specific positions are PINs 077935, 077936, 078826, 077934, and 063575.		5.0
2. Delete funding for Office of Credentialing that was double budgeted. This funding was accidentally budgeted in two separate programs.	\$2,360,755	FF
3. Reduce funding for the upgrade of telecommunications systems in the regional offices. The department plans an upgrade of the telecommunications systems in all 13 regional child care offices. Given the fiscal condition of the State, these upgrades should be delayed until the State recovers from the economic downturn.	82,442 GF 216,846 FF	
Total Reductions	\$ 2,660,043	5.0
Total General Fund Reduction	\$ 82,442	
Total Federal Fund Reductions	\$ 2,577,601	

Source: Department of Legislative Services

Exhibit 4.5 Example of Budget Bill Language

JA01.02 Operating Grants-In-Aid

Add the following language to the special fund appropriation:

, provided that no more than \$3,609,775 of this appropriation may be extended for operating grants-in-aid, exclusive of:

- (1) any additional special funds necessary to match unanticipated federal fund attainments; or
- (2) any proposed increase either to provide funds for a new grantee or to expand funds for an existing grantee; and
- (3) the department provides notification to the budget committees to justify the need for additional expenditures due to either provision (1) or (2) above, and the committees provide review and comment or 45 days elapse from the date such notification is provided to the committees.

Explanation: The annual language caps the level of special funds provided for operating grants-in-aid. The cap may be increased by the Maryland Department of Transportation (MDOT) to match unanticipated federal dollars or to provide or expanded grant funding upon notification to the budget committees.

Information Request	Author	Due Date
Additional special funds for grants-in-aid	MDOT	As needed

Source: Department of Legislative Services

Budget Committee Reports and Action

For agencies heard in subcommittees, a report of each subcommittee's recommended actions is prepared, and these reports are then presented to the full committee. Each item is considered for acceptance, rejection, or modification to arrive at the final position of the committee.

When the Senate Budget and Taxation Committee and the House Committee on Appropriations arrive at their final positions on the budget bill, the Department of Legislative Services prepares the respective committee reports. The two reports differ according to which house moves the budget bill first.

The First House Report

The first house report (i.e., the house moving the bill first) details and illustrates reductions, restrictive language, and committee narrative adopted by the committee. These actions are listed in the same order that the programs affected appear in the budget bill. Actions altering appropriations or altering, striking, or adding language are linked to amendments in the budget bill.

Exhibit 4.6 is a page from the 2002 Report of the Senate Budget and Taxation Committee. This document is used in conjunction with the budget bill to explain the action recommended by the committee to the full Senate. In the example, the committee recommended two amendments. Amendment 21 provided budget bill language that would reduce general funds contingent upon the enactment of legislation and authorize a budget amendment to replace the general funds with special funds. Amendment 22 reduced general funds for travel in the Public Service Commission's budget. A fiscal summary by fund of the Governor's allowance, the proposed reduction, and the resulting appropriation is presented at the end of each program contained in the budget bill.

Exhibit 4.6
First House Action – Committee Report

CG.00 Public Service Commission

Add the following language:

Provided that \$10,276,631 in general funds shall be deleted contingent on enactment of SB 620. The agency is authorized to process a budget amendment to appropriate \$10,276,631 in special funds if SB 620 is enacted.

Explanation: SB 620 would create a public utility regulation special fund and transfer revenues that currently go to the general fund to support agency operations. If enacted, the agency's general fund appropriation would be deleted and the commission would be authorized to process a budget amendment to appropriate a like amount of special funds.

Amendment No. **21**

CG.00.01 General Administration and Hearings

Reduce appropriation for the purposes indicated:

	<u>Funds</u>	<u>Positions</u>
1. Reduce travel to reflect actual fiscal 2001 spending. The 2003 allowance includes a 25% increase in travel over fiscal 2001 experience. This reduction provides for a 2% inflationary increase for both fiscal 2002 and 2003.	20,342	GF
Total Reductions	20,342	0.00

<u>Effect</u>	<u>Allowance</u>	<u>Appropriation</u>	<u>Amount Reduction</u>	<u>Position Reduction</u>
Positions	54.00	54.00		0.00
General Funds	4,773,723	4,753,381	20,342	
Total Funds	4,773,723	4,753,381	20,342	

Amendment No. **22**

Source: Department of Legislative Services

The First House Committee Reprint of the Budget Bill

To facilitate consideration of the budget, an official committee reprint of the bill incorporating the amendments adopted by the committee is used as the basis for legislative action. Each proposed amendment in the reprinted bill is numbered. This committee reprint of the bill and the committee report are used for the floor action as explained below. The rules of the Senate and the House explicitly provide for use of the reprint (Rule 52(d)).

Exhibit 4.7 is a sample of the committee reprint of the fiscal 2003 budget bill indicating the action of the first house on the Public Service Commission's General Administration and Hearings program. This example matches Exhibit 4.6 from the committee report. The Senate added budget language and reduced the general funds by \$20,342.

First House Action

When the budget committee has completed its deliberations and its report is prepared, the bill is brought to the floor for its second reading. This occurs around the end of the ninth week of the session. Recent practice has been to report the bill out of committee and to lay it over for one or two days. This additional time prior to floor action on the bill permits the members to review the recommended amendments and the other supporting documentation. Each member is provided information that includes:

- the budget committee report;
- a committee reprint of the bill which contains each of the amendments;
- a fiscal note revised to show the effect of committee amendments;
- a summary report which provides information on the status of the general fund, spending affordability, and other important issues; and
- the Department of Legislative Services analyses.

Exhibit 4.7 First House Action – Committee Reprint

	BUDGET BILL		9
1	<u>Further provided that \$11,563,140 shall be</u>	(20)	
2	<u>deleted contingent on enactment of SB</u>		
3	<u>772. The agency is authorized to process a</u>		
4	<u>budget amendment to appropriate</u>		
5	<u>\$11,563,140 in special funds if SB 772 is</u>		
6	<u>enacted</u>	11,563,140	
7	Special Fund Appropriation.....	230,990	11,794,130
8			
9	Funds are appropriated in other agency		
10	budgets to pay for services provided by		
11	this program. Authorization is hereby		
12	granted to use these receipts as special		
13	funds for operating expenses in this		
14	program.		
15	PUBLIC SERVICE COMMISSION		
16	<u>Provided that \$10,276,631 in general funds</u>	(21)	
17	<u>shall be deleted contingent on enactment</u>		
18	<u>of SB 620. The agency is authorized to</u>		
19	<u>process a budget amendment to</u>		
20	<u>appropriate \$10,276,631 in special funds</u>		
21	<u>if SB 620 is enacted</u>		
22	CG00.01 General Administration and Hearings		
23	General Fund Appropriation	(22)	4,773,793
24			4,753,381
25	CG00.02 Telecommunications Division		
26	General Fund Appropriation		589,633
27	CG00.03 Engineering Investigations		
28	General Fund Appropriation		831,923
29	CG00.04 Accounting Investigations		
30	General Fund Appropriation		494,459
31	CG00.05 Common Carrier Investigations		
32	General Fund Appropriation	1,070,825	
33	Special Fund Appropriation.....	197,616	1,268,441
34			
35	CG00.06 Washington Metropolitan Area Transit		

Source: Department of Legislative Services

During the layover period, the analysts of the Department of Legislative Services are available to respond to inquiries and to provide additional data or background information concerning the amendments or any item pertaining to the budget. During second reading debate, legislative analysts are available to the legislature in the lounge area or by phone to the Legislative Services Building second floor conference room.

The committee report may propose many amendments to the bill. To expedite floor action, amendments are considered in blocks. A block of amendments generally encompasses all the amendments to a department or a group of smaller agencies. The chairman of the budget committee briefly explains the effect of the block of amendments and moves that all amendments in the block be accepted. Unless there is an objection to an amendment, the block is voted upon. If there are objections, the block is divided so that the vote is taken on those amendments without objection. The controversial amendments are then resolved separately.

This procedure is followed until all committee amendments have been considered and voted upon. At this point, a motion is made to adopt the committee report and the budget bill as amended. The bill is then opened to other amendments from the floor. Floor amendments are drafted to the committee reprint of the budget bill. Upon resolution of floor amendments, the budget bill is ordered printed for third reading. The third reading and passage in the first house is usually completed by the end of the tenth week.

Bill Sent to the Second House

When the budget bill is received in the second house, it is referred to the budget committee for review. The changes made as a result of the action in the first house are explained to the committee by Department of Legislative Services analysts. Committee amendments are written to the bill as amended by the first house (third reader file copy).

Second House Action

The second house committee reprint of the budget bill and associated committee report reflect changes desired to the budget bill as passed by the first house. Those amendments made by the first house with which the second house committee agrees are unchanged in the reprinted bill and unnumbered. The amendments that the committee makes to the first house bill are renumbered and keyed to the second house committee report which accompanies the bill to the floor and serves to explain the committee action. In the event that the committee recommends a change to an amendment adopted by the first house, the report will be formatted in the same manner as the bill; i.e., first house

language or numbers are stricken, and new language or numbers are inserted and shown in italics.

Exhibit 4.8 presents a section of the second house report concerning the State Department of Education Aid to Education. In amendment 140, the House Committee on Appropriations struck language added by the Senate. In amendment 141, the committee partially restored a federal fund reduction recommended by the Senate. Exhibit 4.9 shows these House Committee on Appropriations' amendments as they appeared in the second house committee reprint.

As in the case of the first house, similar information is prepared for each member, and the bill is brought to the floor for second reading about the eleventh week. It is then laid over to permit time for review and study. If the second house had not further amended the budget bill, it would be enacted upon passage at this point. However, as is usually the case, because the second house has amended the bill, the bill must be returned to the first house. At this point, the first house must either accept the bill as amended by the second house or call for a conference committee to resolve the points of difference. Even though the same recommendations are considered in each house, many differences do occur. For example, in 2002, the conference committee was given 222 amendments that were in conflict.

Supplemental Budgets

The Constitution of Maryland provides that the Governor may amend or supplement the budget, with the consent of the General Assembly, before final action on the budget bill (Article III, Section 52(5)). The General Assembly usually permits the Governor to submit supplemental budgets, and the supplemental budget automatically becomes part of the budget bill. However, the General Assembly can exercise its right to delay the reading of a supplemental budget. This maneuver took place in 1990 so that the first house (the Senate) could complete its deliberation of the Governor's budget and move the budget bill to the second house in order to meet constitutional deadlines.

The constitution specifies that a budget supplement shall be for the purpose of correcting an oversight, providing funds contingent upon passage of pending legislation, or for an emergency. The restrictions applied to supplemental budgets are reinforced by Section 7-102 of the State Finance and Procurement Article which states that supplemental budget amendments be restricted to the correction of mechanical errors in the initial budget or to provide funding for legislation enacted in the current session.

Exhibit 4.8
Second House Action – Committee Report

RA02.03 Aid for Local Employees Fringe Benefits

Strike the following language:

, provided that this appropriation shall be reduced by \$46,674,967 contingent upon the enactment of legislation altering the required retirement system funding

Explanation: This stricken language reflects a technical amendment which removes reductions contingent upon provisions within the Budget Reconciliation and Financing Act of 2002, based upon alternative actions taken by the General Assembly.

Amendment No. **140**

RA02.04 Children at Risk

Reduce appropriation for the purposes indicated:

	<u>Funds</u>	<u>Positions</u>
1. Reduce federal dropout prevention funding for children at risk. Sufficient funding exists in the 4.9% increase in direct State education aid to local jurisdictions between the fiscal 2002 working appropriation and the fiscal 2003 allowance to allow the jurisdictions to continue their dropout prevention efforts. Additionally, reduction of this funding, which consists of Temporary Assistance to Needy Families (TANF) funding, would free up funding for higher priority TANF purposes.	5,000,000 3,000,000	FF FF
Total Reductions	5,000,000 3,000,000	

<u>Effect</u>	<u>Allowance</u>	<u>Appropriation</u>	<u>Amount Reduction</u>	<u>Position Reduction</u>
Federal Fund	16,485,155	11,485,155 13,485,155	5,000,000 3,000,000	
Total Funds	16,485,155	11,485,155 13,485,155	5,000,000 3,000,000	

Amendment No: **141**

Source: Department of Legislative Services

Exhibit 4.9 Second House Action – Committee Reprint

	SENATE BILL 175	141
1	Total Appropriation	181,159,238
2		<u>181,159,238</u>
3	AID TO EDUCATION	
4	<i>Provided that \$34,197,577 in aid to</i>	
5	<i>education for Prince George's County is</i>	
6	<i>deleted from the budget, contingent upon</i>	
7	<i>the failure of legislation in the 2002</i>	
8	<i>session that restructures the Prince</i>	
9	<i>George's County Board of Education.</i>	
10	RA02.01 State Share of Basic Current Expenses	
11	General Fund Appropriation	<u>1,764,525,925</u>
12		<u>1,764,230,813</u>
13	RA02.03 Aid for Local Employee Fringe Benefits	
14	General Fund Appropriation, provided that	
15	this appropriation shall be reduced by	
16	\$46,674,967 contingent upon the	
17	enactment of legislation altering the	
18	required retirement system funding	382,402,733
19	RA02.04 Children at Risk	
20	Federal Fund Appropriation	<u>16,485,155</u>
21		<u>11,485,155</u>
22		<u>13,485,155</u>
23	Funds are appropriated in other agency	
24	budgets to pay for services provided by	
25	this program. Authorization is hereby	
26	granted to use these receipts as special	
27	funds for operating expenses in this	
28	program.	
29	RA02.05 Formula Programs for Specific	
30	Populations	
31	General Fund Appropriation	6,463,043
32	RA02.07 Students With Disabilities	
33	General Fund Appropriation	182,377,825
34		
35	To provide funds as follows:	
36	Formula	81,253,345
37	Non-Public Placements	100,191,230

Source: Department of Legislative Services

However, in practice, supplemental budgets fit these criteria only broadly. Supplemental budgets also play a part in negotiations over the Governor's legislative priorities. In years when the Board of Revenue Estimates meets during session, supplemental budgets are used to fine-tune proposed appropriations to bring spending in line with revised revenue estimates. It is even possible for the Governor to use a supplemental budget to reduce current fiscal year appropriations.

Supplemental budgets may be submitted at any time prior to final action on the budget bill. Generally, no more than three supplemental budgets are introduced each year. However, during the 1990 session, ten supplemental budgets were submitted. When supplemental budgets are received, there is often very little time for analysis, and decisions have to be made on statements of purpose, explanations of why the items were not in the original budget bill, and applicable background information that may be available to the legislative analysts. The General Assembly may make any reductions it desires, including reducing the supplemental budget to zero.

According to the rules of both houses, if a supplement is added to the budget bill after the first house has acted on the budget, the first house may consider the supplement and second house amendments made to it. Amendments to these supplements subsequently adopted by the first house, and rejections or modifications to second house amendments made by the first house, are returned to the second house for concurrence. If the second house refuses to concur, the differences are referred to the conference committee. If a supplemental budget is submitted when the budget is in conference, it is deferred to the conferees.

The Conference Committee

The conference committee is composed of five members from each house, and is, by House rule, restricted to dealing only with those amendments in disagreement. The Senate rule is somewhat less restrictive. The conference committee usually meets during the twelfth week of session, and meetings generally involve many hours over a three- to four-day period. The conference committee recommendations must be accepted in their entirety by each house. If they are not, the conference committee must be reinstituted or another appointed. In practice, the budget conference committee report has always been adopted, even though sharp debate has occurred. As has been previously discussed, the conference committee recommendations must be adopted by the eighty-third day or the Governor must issue a proclamation extending the session should the budget not be passed by the ninetieth day.

The report of the conference committee is sent to the President of the Senate and the Speaker of the House. The fiscal 2003 report consisted of the following items:

- a letter from the two committee chairmen summarizing the position of the conference committee and the impact of its actions;
- a plain language description of the conference committee action on each item at issue between the houses;
- a listing of amendments by number that were adopted and/or rejected, or the adoption of new conference committee amendments;
- the language of each new conference committee amendment (see example in Exhibit 4.10); and
- a summary table of conference committee amendments indicating the action taken on each item at issue before the committee. (Exhibit 4.11 contains the first page of the fiscal 2003 amendment table.)

Also distributed with the conference report is a second document that provides summary information on the status of the general fund budget, budget growth, expenditures by major category for each fund, and an updated fiscal note on the budget bill.

Enrolled Bill

When the budget bill has passed both houses, the results of the conference committee are superimposed onto the budget bill. The final bill is proofed and verified by the Document Management unit of the Department of Legislative Services and printed as an enrolled bill. Because this occurs during the last week of the session when the print shop is attempting to print all the bills awaiting approval prior to the end of session, the enrolled bill is often not printed and available until after the session ends Sine Die.

Once passed, the budget bill becomes law, and any deficiency appropriations (for the current fiscal year) contained in the bill become immediately available to the agencies. All other appropriations become available July 1 of the new fiscal year.

Exhibit 4.10

Conference Committee Amendment

Conference Committee Amendment No. 14

On page 37 of the Committee Reprint, under the heading State Lottery Agency, in program ED00.01 Administration and Operations, adopt Amendment 50, and in line 18 strike “52,275,594” and substitute “52,175,594”.

Conference Committee Amendment No. 15

On page 43 of the Committee Reprint, under the heading Department of General Services, adopt Amendment 52, and in line 33, after “Services.” insert “Further provided that the Department of General Services may assign to the Maryland Energy Administration one architect position to implement the Green Building Tax Incentive program created by Chapter 620, 2001 Laws of Maryland”.

Conference Committee Amendment No. 16

On page 44 of the Committee Reprint, under the heading Office of Facilities Operation and Maintenance, in program HC01.01 Facilities Operation and Maintenance, adopt Amendment 53, and in line 18 strike “35,152,079” and substitute “35,112,079”; and in line 23 strike “36,750,138” and substitute “36,710,138”.

Conference Committee Amendment No. 17

On page 49 of the Committee Reprint, under the heading Department of Transportation, adopt Amendment 55, and in line 33 strike beginning with “Provided” down through and including, on page 50 in line 17 “interest.” and substitute “Provided that the General Assembly does not support the use of Maryland Transportation Authority (MdTA) toll revenues to support the Maryland Department of Transportation’s (MDOT) operating budget. The MdTA may transfer unencumbered reserves solely to support the transit initiative in the MTA and WMATA capital programs. In fiscal 2003 MDOT must reimburse the MdTA, without interest, for any MdTA funds appropriated directly in support of the department’s transit capital programs. Beginning in fiscal 2004, it is the intent of the General Assembly that any funds transferred by the MdTA to MDOT for any purpose must be repaid to the MdTA with interest.”

Source: Department of Legislative Services

Exhibit 4.11 First Page of Summary Table of Conference Committee Amendments

<u>Amd No.</u>	<u>Description</u>	<u>Fund Code</u>	<u>Governor's Allowance</u>	<u>Senate Proposed Appropriation</u>	<u>House Proposed Appropriation</u>	<u>Amount at Issue</u>	<u>Conference Appropriation or Action</u>	<u>Legislative Reduction</u>
1	Payments to Civil Divisions of the State -- Reduces funds for disparity grants.	GF	115,179,884	115,179,884	103,348,893	11,830,991	115,179,884	0
							Conference Committee Added Language	
2	Payments to the Civil Divisions of the State -- Strikes language related to retirement contributions based on alternative actions taken by the General Assembly.						Adopt	
3	Judiciary -- Restores funds for one position and restores three positions.	GF	6,044,944	3,885,906	3,938,956	53,050	3,885,906	2,159,038
4	Judiciary -- Increases reduction to funding for circuit court law clerks.	GF	49,800,054	42,421,594	40,911,310	1,510,284	40,911,310	8,888,744
5	Judiciary -- Restores funds and PINs for three vacant positions and for two contractual positions and specifies that a portion of the funds remaining for contractual services in the District Court be used for retired judges.	GF	110,911,549	107,942,271	108,103,709	161,438	107,942,271	2,969,278
6	Judiciary -- Strikes language restricting general funds until the Administrative Office of the Courts submits case time standards and data standards.						Reject w/CCA	
7	Judiciary -- Restores four vacant PINs as well as PINs and related funds for six positions in the finance department.	GF	9,644,978	5,996,801	6,289,029	292,228	6,142,915	3,502,063
8	Judiciary -- Restores funds for information technology.	GF	20,300,314	16,780,774	17,795,502	1,014,728	16,780,774	3,519,540
9	Judiciary -- Deletes funds and PIN for one vacant position in the Clerks of the Circuit Courts.	GF	66,184,260	66,137,835	66,102,128	35,707	66,102,128	82,132
10	Judiciary -- Restores partial funding for Plats On-line (PLATO).	GF	5,775,004	4,242,096	4,686,033	443,937	3,986,033	1,788,971
11	Judiciary -- Strikes language restricting general funds contingent on legislation that would increase the maximum surcharge on recordable instruments for the Circuit Court Real Property Records Improvement Fund.						Adopt	

Source: Department of Legislative Services

Supplementary Appropriation Bills

There is a difference between a supplemental budget and a supplementary appropriation bill. A supplemental budget is the Governor's modification to the budget bill. A supplementary appropriation bill is a separate piece of legislation that may be passed by the General Assembly after the budget bill is enacted. A supplementary appropriation bill permits the General Assembly to add an appropriation to the State budget.

The appropriation in this type of bill must be limited to a single purpose, must include a tax or new revenue source to cover the amount of the appropriation, and is subject to the Governor's veto. This type of bill is infrequently used (except for bond bills, which the Court of Appeals has ruled must meet the requirements of supplementary appropriation bills). The legislature has enacted eight supplementary appropriation bills since 1974.

Chapter 5.

Maryland State Operating Budget: Implementation

In carrying out the provisions of the budget bill, there are a number of documents available to provide guidance. These documents include: the *Report on the State Operating Budget and Related Recommendations (Joint Chairmen's Report)*, the *90 Day Report*, the *Fiscal Effects Report*, and the *Fiscal Digest*. In addition, the Governor may change appropriations through the budget amendment and reduction processes.

The Joint Chairmen's Report

The final report detailing every action taken by the General Assembly upon the budget bill, commonly called the *Joint Chairmen's Report*, is submitted by the chairman of the Senate Budget and Taxation Committee and the chairman of the House Committee on Appropriations. Prepared by the Department of Legislative Services, the document is usually entered into the House and Senate journals before adjournment Sine Die. The *Joint Chairmen's Report* contains a summary of reductions and final appropriations for each agency, indicates items contingent upon the enactment of legislation, subject to review by legislative committees, or otherwise restricted, and details and explains budget actions. Budget actions consist of reductions in funds and personnel, budget bill language, and committee narrative. Budget bill language has the force of law (for one year). Committee narrative expresses legislative intent and is generally used to make policy statements or request additional information such as plans, reports, or special studies.

Each agency receives the parts of the *Joint Chairmen's Report* that apply to its appropriations so that the budget is implemented according to legislative intent. Any action in the *Joint Chairmen's Report* that requires follow-up, such as an agency submission of a report, is sent to the Department of Legislative Services. The department prepares a brief analysis of the item for the budget committees, which may choose to conduct a hearing. Exhibit 5.1 is a page taken from the fiscal 2003 *Joint Chairmen's Report*.

The 90 Day and Fiscal Effects Reports

The *90 Day Report* is prepared by the Department of Legislative Services immediately upon the adjournment of the General Assembly. The report includes summary information on all recently enacted legislation, including the operating and capital budgets. It also includes information on major policy and fiscal issues of the session as well as a summary of State aid to local governments.

Exhibit 5.1
Example of *Joint Chairmen's Report*

EB.00

State Treasurer's Office

Budget Amendments

STATE TREASURER'S OFFICE

EB01.01 Treasury Management

Add the following language to the general fund appropriation:

, provided that funds budgeted for items related to banking services contracts may be expended for that purpose only and may not be transferred by budget amendment or otherwise. Funds remaining at the close of the fiscal year shall revert to the general fund.

Explanation: Banking fees are generally based on a per transaction cost. The budget is prepared by estimating both the per item cost and the number of items – the actual amount needed is not known. This language prohibits funds budgeted for banking contracts from being used for any other purpose.

Reduce appropriation for the purposes indicated:

	<u>Funds</u>	<u>Positions</u>
1. Reduce funds for out-of-state travel to the fiscal 2001 actual level.	3,850GF	
Total Reductions	3,850	0.00

<u>Effect</u>	<u>Allowance</u>	<u>Appropriation</u>	<u>Amount Reduction</u>	<u>Position Reduction</u>
Position	36.00	36.00		0.00
General Fund	3,810,494	3,806,644	3,850	
Special Fund	361,675	361,675	0	
Total Funds	4,172,169	4,168,319	3,850	

Source: Department of Legislative Services

The *Effect of the 2002 Legislative Program on the Financial Condition of the State (Fiscal Effects Report)* is also prepared by the Department of Legislative Services after the Governor has completed action on the General Assembly's legislative program. The report summarizes the fiscal effect of all legislation signed by the Governor on State revenues and expenditures as well as on local government finances. The report also includes summary information on the recently enacted operating and capital budgets, incorporating final action on the legislative program.

The Fiscal Digest

The *Fiscal Digest* is prepared by the Department of Budget and Management and is published shortly after the beginning of the fiscal year. The digest includes: a summary of the status of the general fund, an estimate of revenues for the fiscal year, the details of the appropriations for operating purposes, and a summary of the capital budget and individual bond bills. The *Fiscal Digest* consolidates all modifications made to the allowance (changes made by the Governor through the supplemental budgets and the changes made by the General Assembly). The resulting appropriations provide the basis for the Comptroller's office to pay expenditures for the fiscal year.

Budget Amendments

Enactment of the budget bill establishes the appropriations the General Assembly intends to apply to each government entity. These appropriations can be changed through the budget amendment process. However, as provided for in the State Finance and Procurement Article, the process allows for:

- the transfer of funds within an agency or department between work programs;
- the transfer of funds between agencies as specifically authorized by statute or in the budget bill; and
- the utilization of additional federal or special funds with legislative review, as specifically authorized in the budget bill.

Budget amendments to transfer funds within an agency or department are submitted to the Secretary of Budget and Management for the Governor's approval. Transfers of this type change the appropriation of a certain program but do not change the total appropriation of a department or agency. Thus, the Secretary of Health and Mental Hygiene may, upon approval of the Governor, transfer funds from programs of the Springfield Hospital Center (in the Mental Hygiene Administration) to programs at the

Rosewood Center (in the Developmental Disabilities Administration), as this transfer does not change the total appropriation of the department.

Funds appropriated to a department or agency may not be transferred to another department or agency unless authorized by law. For example, Section 16 of the fiscal 2003 budget bill authorizes funds budgeted in the State Department of Education and the Department of Health and Mental Hygiene, the Department of Human Resources, and the Department of Juvenile Justice to be transferred by budget amendment to the Subcabinet Fund – Community Partnership for Children, Youth, and Families.

Appropriations dealing with special and federal funds are recognized as estimates for these types of revenue. If revenues in excess of the estimates are attained, the budget bill authorizes use of the excess revenue by approved budget amendment. Beginning in fiscal 1992, the budget committees began review of both special and federal fund amendments. This process now applies to amendments which increase special, federal, or higher education fund appropriations by \$100,000 or more. Budget amendments may not restore funds for items or purposes specifically denied by the General Assembly or fund a capital project not authorized by the General Assembly. Budget amendments solely for the purpose of appropriating federal disaster relief funds are excluded from the requirement of budget committee review.

Budget Reductions

Section 7-213 of the State Finance and Procurement Article authorizes the Governor to reduce an appropriation by up to 25 percent with the approval of the Board of Public Works. Funds may be reduced under this provision only when the Governor finds an appropriation is “unnecessary” or when the reduction results from legislative action on the budget bill. Certain restrictions are placed on this authority. The Governor may not reduce legislative or judicial branch appropriations, appropriations for payment of the principal or interest on State debt, or appropriations for public schools. During fiscal 1991-93, the Governor used this authority to reduce appropriations six times to allow the State to address its fiscal problems. This authority was also used to make reductions to the fiscal 2002 budget to address shortfalls in revenue estimates. The Governor may also use this authority to allocate “across-the-board” reductions made by the General Assembly.

Budgetary Control and Monitoring Processes

As adjuncts to the budget amendment process, a number of procedures have been put in place by the Secretary of Budget and Management to insure that the executive branch maintains control and is kept informed on budgetary matters. These procedures

involve the creation, abolishment, or transfer of positions; selection of contractors; purchase of supplies and equipment; and employment of students and others by State departments and agencies. Two of the more important procedures in this regard are those relating to procurement and creating State positions.

Procurement

All State agencies currently have delegated approval authority for services and information technology procurements to \$25,000. Some agencies have higher delegation levels for certain types of procurements. In addition, all agencies have \$100,000 of delegated approval authority for “preference purchases,” as described in Title 21 of the Maryland Annotated Code.

All procurements over \$2,500 must be entered into the Advanced Purchasing and Inventory Control System module of the State’s Financial Management Information System. To obtain approval under the Advanced Purchasing and Inventory Control System, agencies must establish an electronic approval path to the Department of Budget and Management. This approval path must also include the Board of Public Works for any procurement action that requires Board of Public Works approval.

Personnel

Most departments and agencies must request permission to create, transfer, or abolish a position under their budgetary control. A personnel transaction form is submitted to the Department of Budget and Management for every such action with respect to an authorized position, whether the position is in the professional, skilled, management, or executive service. The same policy applies to positions paid from general, special, or federal funds. Some agencies, notably public higher education institutions, operate outside this system, however.

Contingent Fund

The budget also makes a provision to supplement the appropriations in the budget for the operation of the State government. This is accomplished by the contingent fund, which is a specific appropriation of general funds to the Board of Public Works. It is a reserve available to increase the appropriation of an agency for an emergency for which funds have not been included in its budget. The fiscal 2003 budget contains \$750,000 for the contingent fund, which is consistent with the level funded in prior years. Transfers from the contingent fund, after approval by the Board of Public Works, are made by budget amendment.

Withheld Allotments

Section 2 of the operating budget bill authorizes the Secretary of Budget and Management to place funds in contingency reserve pending the satisfaction of certain statutory restrictions, as enumerated in the budget bill. Funds are currently withheld under one of two types of restrictions: those which may be spent only for the maintenance of land and structures, whose release is contingent upon the award of contracts; and those restricted due to specific contingencies imposed by the General Assembly which require legislative review prior to expenditure (e.g., in fiscal 2003, funds appropriated to the Department of Health and Mental Hygiene Alcohol and Drug Abuse Administration were not approved for expenditure by the General Assembly until the department provided a report to the budget committees).

Chapter 6. Structure of State Debt

Public debt in Maryland can be divided into four basic categories: general obligation bonds, transportation bonds, revenue bonds, and capital leases. Each type of debt is discussed below.

General Obligation Bonds

State general obligation bonds are bonds that are backed by the full faith and credit of the State. General obligation bonds are authorized and issued to provide funds for State-owned capital improvements as well as to provide grants to local governments and nonprofit organizations for capital projects that serve a public purpose.

Authorizing and Issuing General Obligation Bonds

The General Assembly authorizes the State to incur debt for specific capital projects. By separate enabling acts, the General Assembly authorizes a particular loan for a particular project or purpose. Prior to 1990, general obligation debt was authorized through a series of separate bond bills: the general construction loan for State-owned facilities; the general public school construction loan to provide funds for local governments to build schools; water quality loans to assist local governments address water quality problems, etc. Since 1990, however, most of these loans have been consolidated into one bill called the Maryland Consolidated Capital Bond Loan, also commonly referred to as the capital bond bill. Still authorized as separate bond bills are legislative initiatives (also known as local bond bills) and debt authorizations for private hospitals.

The Board of Public Works, by resolution, authorizes the issuance of bonds in a specific amount for part or all of the loan authorized by a particular enabling act. The board issues bonds on a consolidated basis as a single issue, designated as a “State and local facilities loan.” The net proceeds of this loan are applied in specific amounts to the various enabling acts. A separate loan account is established for each project for the purpose of tracking expenditures; however, for cash management purposes, bond proceeds are not actually distributed to separate accounts. Generally, proceeds are used for near-term cash needs for projects in progress. However, in some instances, proceeds are used as reimbursements for amounts advanced to a specific loan account.

Federal tax law now limits the amount of tax-exempt debt for private activities to 5 percent of any given issue. This limitation primarily impacts the use of general obligation bonds for industrial development or low-cost government subsidized housing loans. State loans for these purposes are either included in the operating budget as PAYGO (pay-as-you-go) appropriations or financed with revenue bonds. Federal tax laws do permit use of general obligation bonds for public housing owned by a governmental agency or private nonprofit corporation (e.g., Maryland's Partnership Rental Housing Program). These federal restrictions would not apply, however, to the extent the State chooses to issue taxable debt.

Expenditures of bond proceeds must also be approved by the Board of Public Works. All grants and contracts for projects other than local schools must come before the board and receive approval prior to the disbursement of funds. In the case of public schools, the board's Interagency Committee on School Construction, pursuant to procedures adopted by the Board of Public Works, allots funds for the subdivisions on the basis of near-term cash requirements. It should be noted that once a local government has received board approval on a particular school contract, the local government, and not the State, deals directly with the contractors, although the State reviews all transactions.

Payment of Debt Service on General Obligation Bonds

The Constitution of Maryland prohibits the contracting of debt unless, in the same act authorizing the debt, an annual tax or taxes are levied sufficient to pay debt service within 15 years. Repeal of the dedicated tax or its use for other purposes until the debt is repaid is also prohibited. As a uniform practice, each debt authorization pledges toward repayment of an ad valorem property tax on all taxable property in the State. The Board of Public Works is directed by law to set, by May 1 of each year, a tax rate that will produce revenue sufficient for debt service requirements. The Constitution of Maryland (Article III, Section 34) provides that the tax or taxes so levied need not be collected if or to the extent that funds sufficient for debt service requirements in the next fiscal year are appropriated in the annual State budget. Property tax revenues, while exclusively dedicated to debt repayment, are now supplemented with other revenues (primarily general funds) in the annual State budget.

Debt service on general obligation bonds is paid from the Annuity Bond Fund. The fund is structured with a separate account for each enabling act, and debt service is paid according to a defined schedule. General obligation bonds are generally structured at issuance to mature in serial installments with interest-only payments made during the

first two years and with an approximate equal level of annual amortization of principal and interest over the remaining 13 years. Prior to December 1987, a bidder on Maryland bonds was required to pay the State the full value (par value) of the bonds to be sold. Beginning with the December 1987 bond sale, a discount feature was introduced which allowed the bidder to pay the State no less than 99 percent of the par value of the bonds. The revenue sources supporting the fund include the following:

- **State Property Tax:** This tax is exclusively dedicated to the repayment of debt service. The rate is set each year in an amount sufficient to pay all debt service for which funds are not available from other sources. Prior to fiscal 2002, property was assessed at 40 percent of the full value, and from 1982 until 2002, the rate remained constant at \$0.21 per \$100 of assessed value. In fiscal 2002, assessments were made at 100 percent of value, and the rate was reduced to \$0.084 per \$100, which is equivalent to \$.21 per \$100 at the 40 percent assessed value level.
- **General Fund Appropriations:** This source has been authorized since 1974 in order to stabilize the State property tax rate. A large portion of general fund support results from the costs associated with the school construction program. Beginning in 1971, the State assumed 100 percent of the eligible cost of future public school construction and undertook the costs of debt service on certain prior school construction debts. In 1987, this arrangement was altered again to create a cost-sharing arrangement between the State and local governments. Reimbursements and direct debt service for public school construction are appropriated in the Maryland State Department of Education's budget from general funds and then transferred as reimbursable funds to the Annuity Bond Fund. In fiscal 2003, \$103.9 million was budgeted to pay debt service on public school construction bonds. Other general funds, appropriated directly to the Annuity Bond Fund, totaled \$94.0 million in fiscal 2003.
- **Repayable Debt Service:** Debt service on some State bonds is repaid by certain State agencies, subdivisions, and private organizations. Loans authorized for hospital construction, airport development, shore erosion control, sanitary facilities, and sewer construction are repaid by those benefiting from the bond proceeds. In some instances, these loans are repaid over a period longer than the 15-year maximum maturity on State bonds or are repaid interest free. The difference between bond redemption and loan repayment is made up from other sources. Repayments totaled \$2.8 million in fiscal 2003.

- **Miscellaneous Receipts:** These receipts generally include rental of land, profit from the Whitmore garage, and accrued interest on bond proceeds held prior to disbursement. In fiscal 2003, \$200,000 was budgeted in the miscellaneous receipts category.
- **Fund Reserves:** These are excess funds in the Annuity Bond Fund which result when property tax collections exceed the estimate on which the budget was built or when interest rates (and hence debt service) are lower than the estimate on which the budget was built. Excess funds remain in the Annuity Bond Fund and decrease the general fund requirement in the following year.
- **Bond Premiums:** Premiums received on the sale of general obligation bonds are also deposited into the Annuity Bond Fund. Although bidders are allowed to bid on general obligation bonds with up to a 1 percent discount, bids at a premium are also allowed. Bidding at a premium means that the financial syndicate agrees to pay the State some amount in addition to the par value of the bonds. Every winning bid except one since October 1996 has included a premium. The July 2002 bond sale, which included a refunding in addition to the issuance of new debt, included a combined premium of \$52.6 million. Because receipt of a premium on the sale of bonds is uncertain, budgetary practice has been not to anticipate any premiums when building the budget to pay debt service. Bond premiums received will, therefore, decrease the general fund requirement in the following year.

In summary, revenues from the above sources in fiscal 2003 were deposited into the Annuity Bond Fund as shown in Exhibit 6.1.

Exhibit 6.1
Fiscal 2003 Revenue Sources Deposited into the Annuity Bond Fund

<u>Source</u>	<u>Amount</u>	<u>Percent</u>
Balance Beginning of the Year	\$10,269,944	2.0
Property Taxes	283,197,516	55.6
Interest & Penalties on Property Taxes	1,000,000	0.2
Loan Repayments	2,798,252	0.5
Miscellaneous Receipts	200,000	0.0
Bond Premium	14,043,707	2.8
Transfer to Reserve	(152,267)	(0.0)
General Funds		
Department of Education	103,862,347	20.4
Direct Appropriation	94,020,000	18.5
Total Annuity Bond Fund Payments	\$509,239,499	100.0

Source: *Fiscal 2003 State Budget Books*

Transportation Debt

The Maryland Department of Transportation issues consolidated transportation bonds that are tax-supported debt. These bonds, which are issued for 15 years, provide the financial support for a variety of transportation projects such as highways, mass transit, and airports. Revenues from consolidated transportation bonds are combined with other revenues in the Maryland Department of Transportation to pay the operating and capital programs and debt service. Debt service on consolidated transportation bonds is payable solely from the Transportation Trust Fund.

The State previously issued county transportation bonds that also were backed by the full faith and credit of the State and counted toward State debt affordability limits. Chapter 539, Acts of 1993 changed this policy by authorizing the department to issue bonds for the local jurisdictions, which no longer will apply to State debt affordability limits, but will instead count only toward the outstanding debt of the counties.

Consolidated Transportation Bonds

In an effort to control transportation debt, the Maryland Department of Transportation must meet two criteria: an outstanding debt limit and a coverage test. The outstanding debt limit is set by statute at \$1.5 billion with the proviso that an annual debt ceiling will be set in each budget bill. The fiscal 2003 budget bill sets the maximum ceiling for June 30, 2003, at \$1.075 billion.

The bond revenue coverage test, established in each bond resolution, mandates that net revenues and pledged taxes must equal at least twice the maximum future debt service. The department has adopted an administrative policy establishing a minimum coverage of 2.5. As of June 30, 2001, the Maryland Department of Transportation had a maximum outstanding debt of \$870.5 million.

Other Special Financings

The Maryland Department of Transportation also uses non-traditional debt to finance construction of transportation-related facilities. Certificates of participation are purchase agreements that are backed by a dedicated revenue source. Once the certificates of participation are repaid, the Maryland Department of Transportation will own the facility being built; until that time, however, other parties have a financial hold on the facility. In 1999, the Maryland Department of Transportation sold certificates of participation totaling approximately \$43 million to support the expansion of Pier A and B and to renovate deicing facilities at the Baltimore-Washington International (BWI)

Airport. Airport revenues and lease fees paid by two airlines that are using the new facilities backed the certificates of participation. In 2000, the Maryland Department of Transportation sold \$33 million in certificates of participation to finance the expansion of a parking garage at the Maryland Rail Commuter (MARC) BWI Rail Station. Parking fees backed the certificates of participation for the new garage.

In addition to certificates of participation, the Maryland Transportation Authority sells revenue bonds backed by certain revenues for the Maryland Department of Transportation. For instance, in 1994 the Maryland Transportation Authority and the Maryland Department of Transportation completed their first passenger facility charge financing. At that time, the Maryland Transportation Authority sold bonds backed by a \$3.00 passenger facility charge assessed on each passenger using BWI Airport to support construction of a new international terminal. Repayment of these bonds is projected to occur in 2004. In spring 2002, the Maryland Department of Transportation received approval to increase the passenger facility charge charged to passengers to \$4.50 per flight segment, and the additional funds will be used for various improvements to airport facilities. The Maryland Department of Transportation expects to sell bonds backed by the \$4.50 passenger facility charge once the existing passenger facility charge bonds are repaid. In addition to passenger facility charges, the department has used customer facility charges to finance large projects. In June 2002, the Maryland Transportation Authority sold bonds totaling approximately \$117 million backed by a customer facility charge of \$3.00 per day per rental car at BWI. The funds will support construction of a centralized, off-airport rental car facility.

During the 2002 legislative session, the General Assembly passed legislation enabling the Maryland Department of Transportation to issue grant anticipation revenue vehicle bonds and to participate in a federal financing program established by the Transportation Infrastructure Finance and Innovation Act of 1998. Grant anticipation revenue vehicle bonds are bonds backed by expected future federal funds. The Transportation Infrastructure Finance and Innovation Act of 1998 is a loan guarantee backed by the federal government and can be used for projects totaling over \$100 million.

Revenue and Enterprise Bonds

Certain agencies of State government are authorized to borrow money under laws that expressly provide that the loan obligations do not constitute a debt or a pledge of the full faith and credit of the State. The principal and interest on bonds issued by these bodies are usually payable solely from funds generated by the project. Principally, these funds are fees charged for the use of the facilities or enterprises financed by the bonds.

Projects financed by revenue bonds can be divided into two general categories: traditional governmental activities and private purposes. Traditional governmental activities include transportation projects, the construction of public educational facilities, and water and sewer treatment facilities. Agencies that issue traditional governmental activity revenue bonds are the Maryland Transportation Authority, Maryland Environmental Service, Maryland Stadium Authority, University System of Maryland, St. Mary's College, Morgan State University, and Baltimore City Community College.

Private activity bonds are issued for such purposes as housing, hospitals, private higher education, economic development, and energy conservation. State entities that issue private purpose bonds include the Community Development Administration, the Maryland Health and Higher Education Facilities Authority, the Maryland Higher Education Supplemental Loan Authority, and the Maryland Food Center Authority.

During the 1989 session of the General Assembly, legislation was passed that would have required the Board of Public Works to establish a yearly debt ceiling for revenue and enterprise bonds issued by State agencies and independent authorities. This action was taken in response to the rapid growth in the amount of bonds being issued. The Governor vetoed the legislation and issued an executive order (Executive Order 01.01.1989.13) establishing a procedure whereby the Governor would set an annual debt issuance ceiling and allocation among the agency non-tax-supported debt issuers. The order contained reporting and notification requirements on issuing agencies. In February 1998, Executive Order 01.01.1998.07 was issued, which rescinded the 1989 executive order and reestablished the agency debt oversight process with revisions. The revisions included a reduction in the number of agencies included in the debt issuance cap to the four that are not otherwise controlled in statute or through other oversight mechanisms: Maryland Environmental Service, Maryland Food Center Authority, Maryland Transportation Authority, and Maryland Water Quality Financing Administration. Reporting and notification procedures were also modified slightly with respect to reporting dates and required information.

Community Development Administration

The Community Development Administration, part of the Division of Development Finance of the Department of Housing and Community Development, administers the State's housing programs. The goals are to expand and improve the housing supply for low- and moderate-income families, to stimulate the flow of capital into the State's housing market, and to facilitate rehabilitation loans to low- and moderate-income families who are unable to obtain conventional financing. In addition,

loans are made to developers for the construction of multi-family housing to provide affordable rental units to Marylanders.

The Community Development Administration funds its programs with a combination of tax-exempt bonds, low-income housing tax credits, federal Home Investments Partnership Program funds, and State appropriations. Debt issued by the Community Development Administration is secured by mortgages on the property, mortgage insurance, and federal subsidies. Loan repayments are applied to debt service.

Maryland Health and Higher Educational Facilities Authority

The Maryland Health and Higher Educational Facilities Authority provides financing to hospitals and educational institutions for expansion or improvements of existing facilities, new construction, and equipment. The authority may also finance continuing care communities that provide residential facilities for the elderly. The authority provides financing by acting as a conduit issuer. The debt remains the responsibility of the agency for which the debt was issued.

The authority provides for the issuance of tax-exempt revenue bonds for specific projects. In addition, the authority operates a pooled loan program. The authority administers the loans by controlling expenditures of the proceeds until construction is completed. Each issue is secured differently, depending on the borrower, but generally a lien is placed on the property. Revenues generated for the particular enterprise are pledged to retire the debt. In addition, a debt service reserve fund, equal to the highest debt service cost in any future year, must be maintained. The debt outstanding as of June 30, 2001, was nearly \$3.7 billion.

Public College and University Bond Authority

The University System of Maryland, St. Mary's College, and Morgan State University have statutory authority to issue revenue bonds to finance the construction of academic and auxiliary facilities. The proceeds from such debt financing can be used for construction, renovation, or replacement of classrooms; laboratories; residence halls; dining centers; athletic facilities; parking garages; and other facilities. The General Assembly must expressly authorize each academic project and the maximum principal amount of bonds for the project. Baltimore City Community College has authority to issue auxiliary revenue bonds only.

The revenue bonds are secured by auxiliary fees (income, fees, rents, charges, and other revenues from the use of auxiliary facilities) and academic fees (tuition, student, and activity fees). Repayment of debt service is available from those sources as well as

from specifically authorized State appropriations and contracts, grants, and gifts. Separate accounting and reports are required for auxiliary and academic facilities. The term of the bonds may not exceed the useful life of the facility, which may not be more than 33 years for auxiliary facilities or more than 21 years for academic facilities.

The maximum amounts of outstanding bonds for each system are set in statute as follows:

- \$975 million for the University System of Maryland;
- \$45 million for St. Mary's College;
- \$77 million for Morgan State University; and
- \$15 million for Baltimore City Community College.

Maryland Higher Education Supplemental Loan Authority

The Maryland Higher Education Supplemental Loan Authority is authorized to issue tax-exempt revenue bonds on behalf of participating higher educational institutions for the purpose of providing students with lower interest loans. The repayment of the loans is used to pay the debt service on the bonds. The authority is inactive and has no outstanding debt.

Maryland Transportation Authority

The Maryland Transportation Authority is empowered to issue bonds to finance the construction and improvement of revenue producing transportation facilities projects. The authority currently operates and maintains four toll bridges (Susquehanna River, Potomac River, Chesapeake Bay, and Baltimore Harbor), the Harbor Tunnel Thruway, the John F. Kennedy Memorial Highway, and the Fort McHenry Tunnel (which it took over from Baltimore City). A 1985 trust agreement requires that the authority collect tolls and other charges for the use of its facilities sufficient to pay 120 percent of the amount of the debt service requirements for each bond year and any current operating expenses, and to provide for adequate deposits to a maintenance and operations reserve account. For instance, in recent years, the authority's bonds have been used to finance the construction of the Seagirt Marine Terminal, a new international terminal at BWI Airport, and other airport capital improvement projects. New financings managed by the authority include the sale of \$264 million in bonds in February 2002 to support construction of additional parking facilities at BWI Airport. The bonds will be repaid

with parking fees. In June 2002, the authority sold \$120 million in bonds, raising cash for a consolidated rental car facility to be built adjacent to BWI Airport. A customer facility charge of \$3.00 assessed per day since March 2001 will repay these bonds. Additional bond sales are planned to support additional projects at BWI Airport. The authority is also transferring toll receipts totaling \$207 million between 2002 and 2007 to the Maryland Department of Transportation to support expanded transit services.

Maryland Food Center Authority

The Maryland Food Center Authority is authorized to establish, operate, and maintain wholesale food markets throughout the State. The Maryland Food Center Authority may operate any project, market, food handling, storage, or distribution facility, commercial seafood facility or operation, and any ancillary facility or services that the authority determines will enhance the public attractiveness of a development or project. Ancillary facilities include parking, transportation facilities, restaurants, shops, stores, banks, or other commercial enterprises. The Maryland Food Center Authority projects currently include the wholesale produce and wholesale seafood markets at the Maryland Food Center in Howard County and the Rockhall Seafood Processing Plant in Kent County.

For projects undertaken at sites other than the Maryland Food Center, prior to beginning construction the authority must submit to the Legislative Policy Committee for review an analysis of the economic benefits of the proposed development.

The authority issues revenue bonds with maturities not exceeding 40 years and in an amount not to exceed in the aggregate \$25 million to finance development projects. As of June 30, 2002, the authority did not have any outstanding debt.

Maryland Stadium Authority

The Maryland Stadium Authority was originally created to build and operate separate baseball and football stadiums at the Camden Yards in Baltimore City. As part of its original enabling statute, the authority was authorized to issue up to \$235 million in revenue bonds to help pay for the construction of the stadiums. Subsequent to the construction of the baseball stadium, the authority was given statutory authority to issue revenue bonds for and manage the construction of the Baltimore City and Ocean City convention centers, a conference center in Montgomery County, and the Hippodrome Theater in Baltimore City. Uncodified language in the 1998 capital budget bill also authorizes the authority to assist State agencies and local governments in managing construction projects upon notification of the budget committees and with the proviso that funding be provided entirely by the agency or local government requesting assistance.

unless funding is specifically provided in the budget for the project. Exhibit 6.2 lists the projects for which the authority is providing assistance but is not authorized to issue revenue bonds.

Exhibit 6.2
State Agency and Local Government Projects
Receiving Maryland Stadium Authority Assistance

University of Maryland, College Park – Comcast Center (basketball arena)

Towson University – Minnegan Stadium (football stadium)

University of Maryland Baltimore County – New Student Center

City of Aberdeen – Ripken Baseball Stadium and Youth Baseball Academy

Maryland Economic Development Corporation – Leonardtown Golf Course

Source: Department of Legislative Services

Exhibit 6.3 lists the debt authorized and the amount of debt outstanding for the projects for which the Maryland Stadium Authority has been authorized to issue revenue bonds.

Exhibit 6.3
Maryland Stadium Authority Revenue Debt
Authorizations and Debt Outstanding
(\$ in Millions)

<u>Project</u>	<u>Authorized</u>	<u>Outstanding as of</u> <u>June 30, 2002</u>
Baseball and football stadiums	\$235.0	\$218.7
Baltimore City Convention Center	55.0	44.6
Ocean City Convention Center	17.3	14.7
Montgomery County Conference Center	23.3	0.0
Hippodrome Performing Arts Center	17.4	0.0
Total	\$348.0	\$278.0

Source: Department of Legislative Services

Capital Leases

Beginning in 1987, the State's capital program began utilizing lease/leaseback financing for capital projects. These leases are used to acquire both real property and equipment. Beginning in fiscal 1994, the State instituted a program involving equipment leases for energy conservation projects at State facilities. For real property, the transaction generally involves an agreement in which the State leases property to a developer, which in turn builds or renovates a facility and leases it back to the State. At the end of the lease period, ownership of the facility is transferred to the State. Equipment leases are generally for shorter periods of time – from three to five years. For energy conservation projects, agencies make lease payments using the savings that result from implementation of the conservation projects. Capital leases undertaken by the State are considered tax-supported debt under debt affordability calculations.

All three types of leases – equipment, energy conservation, and property – have advantages. Equipment leases often involve high technology equipment such as data processing or telecommunications equipment. Equipment leases offer the State more flexibility than purchases since leases can be for less than the entire economic life of the equipment. Equipment leases are especially attractive in an environment where technology is changing very rapidly. Leases can also be written with a cancellation clause, which would allow the State to cancel the lease if the equipment were no longer needed. Currently, the Treasurer's lease-purchase program consolidates the State's equipment leases in order to lower interest costs through volume purchasing of financing.

Using the savings realized in utility cost reductions to pay off energy conservation project leases allows projects to proceed that otherwise might not be of high enough priority to be funded, given all of the other competing capital needs statewide. Under the program, utility costs will decrease, and as the leases are paid off, the savings from these projects will accrue to the State.

The primary advantages of property leases when compared to general obligation bond financing are that they allow the State to act more quickly if an unanticipated opportunity presents itself. Because of the extensive planning and legislative approval process involved in the State's construction program, it often takes years to finance a project. Lease agreements are approved by the Board of Public Works after they have been reviewed by the Legislative Policy Committee. Since the Board of Public Works and the committee meet throughout the year, leases can be approved much more quickly than general obligation bonds, which must be approved by the entire General Assembly during a legislative session.

Non-debt Capital Funding

Some capital projects and grant and loan programs are not funded through debt. General, special, and federal funds budgeted in the operating budget are sometimes used for capital expenditures. Known as PAYGO (pay-as-you-go), these funds are used in instances where federal law limits or prohibits use of tax-exempt debt financing (such as economic development, housing, and environmental projects). PAYGO may also be used to supplement or replace debt financing when revenue surpluses are available for this purpose.

Chapter 7. State Capital Program

Projects included in the State capital program must meet certain requirements and are further subject to restrictions concerning the expenditure of funds. In order to be classified as a capital improvement, a project must have a useful life at least equal to the life of the bonds sold to finance it (currently 15 years). Monies derived from State construction bonds may be used only for capital improvements. The Board of Public Works must approve individual contracts prior to the expenditure of funds. When a capital project is complete, any remaining unexpended funds may revert to the Annuity Bond Fund to help pay debt service, may be transferred to the Capital Retainage Account and used in lieu of issuing other bonds, or may be placed in the contingent fund to supplement any capital appropriation under guidelines stipulated in the law. If unissued bonds exist for a completed project, the authorization may be canceled, thereby reducing the amount of authorized but unissued State debt.

The State's capital program may be divided into four major categories:

- general construction program or capital budget;
- public school construction program (PSCP);
- administration program (grant program); and
- special projects.

In past years, bond bills were introduced for each category. Beginning with the 1990 session, a consolidated capital bond bill combining the first three categories into one bond bill was introduced. Each category is explained below.

General Construction Program

The general construction program (previously known as the general construction loan or GCL when it was a separate bond bill) contains appropriations to finance the planning, construction, and equipping of State-owned facilities. It is usually referred to as the capital budget. In the general construction program, authorizations are made to the various departments and agencies in State government for capital projects.

Exhibit 7.1 provides a listing of agencies and types of facilities financed by the general construction program.

Exhibit 7.1 General Construction Fund

<u>Agency</u>	<u>Purpose</u>
Agriculture	Acquisition of perpetual preservation easements on agricultural land through the Agricultural Land Preservation Program
University System of Maryland, Morgan State University, St. Mary's College, Baltimore City Community College, and Higher Education Centers	Construction and renovation of academic, administrative, and athletic facilities
Maryland School for the Deaf	Construction and renovation of academic and administrative facilities
Maryland Environmental Service	Construction of water and wastewater treatment plants at State facilities
Health and Mental Hygiene	Construction and renovation of State hospitals, laboratories, and residential group homes
Historic St. Mary's Commission	Construction of exhibit structures at the St. John's site and Maryland Heritage Project
Business and Economic Development	Construction of local projects and facilities intended to stimulate business development and economic growth
Housing and Community Development	Construction and renovation of State-owned heritage parks and museum facilities such as Jefferson Patterson Park and Banneker-Douglass Museum
Juvenile Justice	Construction and renovation of juvenile detention facilities and group homes
Labor, Licensing, and Regulation	Construction and renovation of regional offices
Military	Construction and renovation of National Guard armories and support facilities

Exhibit 7.1 (Continued) General Construction Fund

<u>Agency</u>	<u>Purpose</u>
Natural Resources	Acquisition of land for conservation purposes and construction and renovation of recreational facilities at State parks, natural resource management areas, wildlife management areas, and fish hatcheries
Public Broadcasting	Construction of regional facilities, back-up power system, and learning center
Public Safety and Correctional Services	Construction and renovation of correctional institutions and the Public Safety Training Center
General Services	Acquisition, construction, and renovation of State office buildings and multi-service centers
State Police	Construction and renovation of barracks and crime laboratories

Source: Department of Legislative Services

Public School Construction Program

The State shares with local governments the financial responsibility for funding the public school construction program. The program is administered by the Interagency Committee on Public School Construction. Each fall, the 24 school districts in the State submit a capital improvement program, which is approved by the county government or Baltimore City. After review and discussion with representatives of the school districts, the interagency committee compiles a capital program request and forwards it to the Board of Public Works. The board then holds a hearing allowing school districts the opportunity to appeal the final decisions of the interagency committee. The program is then approved by the Board of Public Works.

State funding ranges from 50 to 80 percent based on the wealth of the jurisdiction. Exhibit 7.2 indicates the current cost share category for each county.

Exhibit 7.2
State/Local Cost Share Amounts

<u>50/50</u>	<u>55/45</u>	<u>60/40</u>	<u>65/35</u>	<u>70/30</u>	<u>75/25</u>	<u>80/20</u>
Anne Arundel	Calvert	Prince George's ¹	Carroll	Cecil	Allegany	Somerset
Baltimore County	Queen Anne's		Charles	Dorchester	Baltimore City ²	
Howard			Frederick	Garrett	Caroline	
Kent			Harford	St. Mary's		
Montgomery			Washington	Wicomico		
Talbot						
Worcester						

Notes:

¹ For fiscal 1999 through 2003, Prince George's County shall receive a 75 percent State match on the first \$35 million allocated by the State and then a 60 percent State match for any State funds provided in excess of \$35 million.

² For fiscal 1998 through 2001, Baltimore City was eligible for a 90 percent State match on the first \$10 million allocated by the State and then a 75 percent State match for any State funds provided in excess of \$10 million. For fiscal 2002 through 2003, Baltimore City shall receive a 90 percent State match for the first \$20 million allocated by the State and then a 75 percent State match for any State funds provided in excess of \$20 million.

Source: Interagency Committee on School Construction

Administrative Grant

In addition to projects at State-owned facilities and public schools, the administrative capital grant program provides funding in the areas of health and social programs, community colleges, agriculture, environment, economic development, and housing. The last four categories are now funded primarily through PAYGO due to changes in federal law concerning eligible uses for tax-exempt bonds. There are a number of State programs that provide full or partial capital funding in a variety of areas (see Exhibit 7.3).

Exhibit 7.3
Administrative Capital Programs
Funded through Bond Bills and PAYGO

Health and Social Programs

Senior Citizen Activity Centers	Provides grants to local government agencies to acquire, construct, and renovate senior citizen activities centers. The grants are up to 50 percent of the costs and total no more than \$600,000.
Adult Day Care Facilities Program	Provides grants to public and nonprofit groups for up to 75 percent of the costs for acquisition, design, construction, or renovation of group or family day care facilities.
Assisted Living Facilities Program	Provides grants to public and nonprofit groups for up to 75 percent of the costs of acquisition, conversion, renovation, construction, and equipping of assisted living facilities.
Community Health Facilities Program	Provides grants to public and nonprofit groups for up to 75 percent of the costs for acquisition, design, construction, renovation, and equipping community health facilities for mental health, developmental disabilities, and substance abuse treatment services.
Juvenile Justice Facilities Program	Provides grants for up to 50 percent to assist in the acquisition, design, construction, renovation, and equipping of residential and nonresidential facilities that contribute to the treatment, control, and prevention of juvenile delinquency.

Agriculture

Tobacco Conversion Program	Provides funds for growers' transition and the purchase of easements to retain land in non-tobacco use.
Maryland Agricultural Cost-Share Program	Provides funds to assist farmers in installing methods to reduce nutrient runoff.

Exhibit 7.3 (Continued)
Administrative Capital Programs
Funded through Bond Bills and PAYGO

**Business and Economic
Development**

Maryland Small Business
Development Financing
Authority (MSBDFA)

- Contract Financing Provides loans and loan guarantees for eligible small contractors for working capital and equipment to perform work under federal, State, or local government or public utility contracts. The maximum is \$500,000.
- Equity Participation Assists disadvantaged persons to take advantage of franchising and Investment opportunities to acquire technology-based businesses and existing profitable businesses through equity investments of up to \$500,000.
- Surety Bond Provides directly or guarantees bid, performance, or payment of bonds up to \$250,000 on contracts with a government or regulated public utility.
- Guaranty Fund Provides guarantees for disadvantaged small businesses.

Maryland Industrial
Development Financing
Authority (MIDFA) Bond
Insurance Fund

Insures all or any part of payments of principal and interest under taxable and tax-exempt economic development revenue bonds issued by local governments, industrial development authorities, and other public bodies. Also, insures traditional loans to businesses by private lenders.

Enterprise Investment Fund

Provides capital (up to \$500,000) for start-up companies that are developing innovative technologies, by purchasing equity in the company.

Challenge Investment
Program

Provides limited financial support to companies that are commercializing new technology, products, and services. Funds are provided as royalty-bearing and are limited to \$100,000 with contingent repayment.

Maryland Economic
Adjustment Fund

Provides loans to businesses impacted by the loss of federal employment.

Maryland Economic
Development Assistance Fund
(MEDAF)

Provides loans and grants to businesses locating or expanding in priority funding areas.

Exhibit 7.3 (Continued)
Administrative Capital Programs
Funded through Bond Bills and PAYGO

Maryland Competitive Advantage Financing Fund (MCAFF)	Provides loans up to \$100,000 to small disadvantaged businesses to finance the cost of land, buildings, and equipment.
One Maryland: Smart Growth Economic Development Infrastructure Fund	Provides loans to distressed jurisdictions who then reloan the funds to businesses locating or expanding in the area. The funds are for site preparation, construction of shell buildings, infrastructure, and other capital development.
Sunny Day Fund	Provides grants and low-interest loans to assist in extraordinary economic development opportunities that retain or expand existing enterprises and establish new enterprises resulting in the creation or retention of substantial numbers of jobs.
Canal Place Preservation and Development Authority	Provides grants to acquire property, design, and construct site improvements to Canal Place.
Technology Development Corporation	Provides financial assistance for the commercialization of university research.

Energy and Environment Programs

Maryland Energy Administration	Provides loans for energy conservation projects. The funds assist with studies, design, construction, and special services. State agencies use the State Agency Loan Program (SALP), and nonprofit organizations and local governments use the Community Energy Loan Program (CELP).
Water Quality Revolving Loan Fund	Provides loans to counties and municipalities to finance wastewater treatment plant improvements such as failing septic systems and nonpoint source projects such as urban storm water control projects.
Supplemental Assistance Program	Provides grant assistance to communities unable to afford the local share of compliance-related improvements to the wastewater system infrastructure.
Drinking Water Revolving Loan Fund	Provides loans to counties and municipalities to finance drinking water supply improvements and upgrades.
Water Supply Assistance Fund Program	Provides grants (up to 87.5 percent) to assist small communities in the acquisition, construction, rehabilitation, and equipping of publicly owned water supply facilities.

Exhibit 7.3 (Continued)
Administrative Capital Programs
Funded through Bond Bills and PAYGO

Hazardous Substance Cleanup Program	Provides for State participation in the federal Superfund to remediate sites. Also provides funds to clean up other uncontrolled waste sites within the State.
Biological Nutrient Removal Program	Provides grants to counties and municipalities for the removal of nutrients from the discharge of sewage treatment plants.
Stormwater Pollution Control Program	Provides grants for up to 75 percent to counties and municipalities for stormwater management projects resulting in a reduction in the pollutant load from developed areas. The projects involve retrofit and conversions.
Small Creek and Estuary Restoration Program	Provides grants for up to 87.5 percent for water quality cleanup projects in small creeks and estuaries to restore stream channels.
Comprehensive Flood Management Program	Provides grants to local governments for projects that reduce the risk of loss of life and property from flooding, including demolition or relocation, and installation of flood warning systems.
Higher Education	
Community Colleges	Provides grants to local governments based on a cost-sharing formula for the construction or improvement of community colleges.
Housing and Community Development	
Maryland Housing Fund	Provides residential mortgage insurance lenders with the reserve necessary to finance housing for low- and moderate-income individuals and families.
Maryland Historical Trust Grant Fund and Revolving Loan Fund	Provides grants and/or loans to nonprofit preservation foundations, organizations, and individuals to encourage historical preservation. A preservation easement on the improved property is required.
Community Legacy Program	Provides technical and financial assistance to selected communities to assist in neighborhood revitalization efforts.
Neighborhood Business Development Program	Provides gap financing in support of community-based economic development in designated revitalization areas. Up to 70 percent of funds are for loans to private firms and nonprofit organizations with the remainder providing grants for pre-development purposes.

Exhibit 7.3 (Continued)
Administrative Capital Programs
Funded through Bond Bills and PAYGO

Community Development Block Grants	Provides grants to local governments in jurisdictions that do not receive direct federal funding. The grants are competitive and support revitalizing neighborhoods and expanding affordable housing.
Shelter and Transitional Housing Facilities Program	Provides grants to counties and nonprofit organization to acquire, design, construct, renovate, and equip emergency shelters and transitional housing for homeless individuals and families.
Rental Housing Programs	Provides low-interest or deferred payment loans for rental housing developments serving very low-income households.
Homeownership Programs	Provides loans to low- and moderate-income individuals for the purchase of homes, as well as mortgage assistance and reverse equity loans, and provides closing cost assistance to first-time homebuyers.
Special Loan Programs	Provides below-market rate loans for the construction or repair of single-family homes or small multi-family facilities, indoor plumbing, lead paint abatement, energy conservation, and group home financing. Loans are made to families of low and moderate incomes.
Partnership Rental Housing Program	Provides deferred payment loans to local government housing authorities for development of new or rehabilitation of low-income rental housing.

Natural Resources

Waterway Improvement Fund	Provides funds to local jurisdictions to finance projects that expand recreational boating.
Community Parks and Playgrounds	Provides grants to local governments to restore or create community parks and playgrounds in priority funding areas.
Rural Legacy	Provides funding for the purchase of conservation easements and fee simple acquisition of land in designated protection areas.
GreenPrint	Provides funding for the acquisition and protection of large tracts of forest and wetlands.

Source: Department of Legislative Services

Local Detention Facilities

Under the local jail program, the State provides grants to local governments for a portion of construction costs of local jail facilities. Grants are made for 50 percent of costs, except for capacity necessitated by sentencing changes enacted in 1986 requiring inmates serving sentences of up to one year to be held in local detention centers. Based on certain criteria, 100 percent of per-bed costs are paid by the State.

Special Projects

Individual bond bills are authorized for projects that are initiated by members of the General Assembly. The authorizations include various cultural, historic, health, educational, and economic development projects not funded by the previously mentioned State programs. Generally, the authorizations require the recipient to provide matching funds equal to the State funds and to convey an historic easement, if applicable, to the Maryland Historical Trust.

In addition to small, local projects, the State funds a percentage of capital costs for projects at private higher educational facilities and private hospitals. Traditionally, the State has assisted private higher educational institutions in the construction of educational facilities. Generally, the assistance may represent up to 50 percent of construction costs. These latter projects are authorized in separate bond bills. Although the General Assembly had always included private hospitals in the special project category, in 1994 the General Assembly began a program to fund up to \$5 million annually for private hospitals. These projects are authorized in separate bond bills.

Exhibit 7.4 displays a four-year history of authorizations by major category for all fund sources.

Exhibit 7.4
Summary of Capital Program 1999-2002 Sessions
(\$ in Millions – All Funds)

	1999 Session (FY 2000)	2000 Session (FY 2001)	2001 Session (FY 2002)	2002 Session (FY 2003)	Subtotal	Total
Uses of Funds:						
State Facilities						\$221.1
Facilities Renewal	\$14.5	\$13.3	\$11.4	\$10.4	\$49.6	
Other	39.3	63.2	54.3	14.7	171.5	
Health/Social						124.1
State Facilities	2.1	11.8	20.7	8.5	43.1	
Private Hospitals	3.8	4.7	5.2	5.0	18.7	
Other	21.3	16.5	10.7	13.8	62.3	
Environment						1,149.9
Natural Resources	108.8	106.3	160.8	89.5	465.4	
Agriculture	26.7	27.9	33.3	28.9	116.8	
Environment	205.2	106.2	149.6	85.3	546.3	
MD Envir. Services	3.2	3.6	3.9	3.4	14.1	
Energy	2.1	2.1	2.1	1.0	7.3	
Public Safety						216.3
State Corrections	44.6	34.1	41.3	8.9	128.9	
Local Jails	11.7	12.7	1.8	5.2	31.4	
State Police	5.6	4.1	8.1	0.3	18.1	
Other	11.0	0.0	22.2	4.7	37.9	
Education						953.1
School Construction	255.2	261.0	244.8	151.0	912.0	
Other	16.0	4.7	15.6	4.8	41.1	
Higher Education						1,071.2
University System	110.2	286.4	297.3	41.7	735.6	
Morgan State University	8.3	16.2	11.7	25.1	61.3	
St. Mary's College	11.0	1.1	6.2	2.0	20.3	
Community Colleges	23.1	40.9	43.7	30.6	138.3	
Private Colleges/Universities	6.0	24.0	18.0	11.9	59.9	
Medical System	10.0	11.0	12.0	8.0	41.0	
Other	0.5	5.7	8.0	0.6	14.8	
Housing/Comm. Development						269.4
Housing	48.4	45.8	37.4	61.9	193.5	
Other	20.1	17.7	25.9	12.2	75.9	
Economic Development	68.0	66.9	73.6	61.0	269.5	

Exhibit 7.4 (Continued)
Summary of Capital Program 1999-2002 Sessions
(\$ in Millions – All Funds)

	1999 Session (FY 2000)	2000 Session (FY 2001)	2001 Session (FY 2002)	2002 Session (FY 2003)	Subtotal	Total
Local Projects						285.4
Administration	41.5	94.9	66.8	15.5	218.7	
Legislative	19.1	23.1	24.5	0.0	66.7	
Transportation						5,566.8
Transportation	1,134.9	1,315.1	1,511.4	1,605.4	5,566.8	
Deauthorizations						-16.8
Deauthorizations	-3.7	-2.0	0.0	-11.1	-16.8	
Total	\$2,268.5	\$2,619.0	\$2,922.3	\$2,300.2	\$10,110.0	\$10,110.0
Sources of Funds:						
Debt						
General Obligation	\$445.0	\$460.0	\$505.0	\$391.3	\$1,801.3	
Revenue Bonds	265.0	210.0	260.0	389.9	1,124.9	
Recycled	0.0	0.0	0.0	0.9	0.9	
Subtotal	\$710.0	\$670.0	\$765.0	\$782.1	\$2,927.1	
Current Funds (PAYGO)						
General	\$314.9	\$613.3	\$548.1	\$49.6	\$1,525.9	
Special	672.8	655.4	766.0	648.4	2,742.6	
Federal	570.9	680.3	843.3	820.2	2,914.7	
Subtotal	\$1,558.6	\$1,949.0	\$2,157.4	\$1,518.2	\$7,183.2	
Total Funds	\$2,268.6	\$2,619.0	\$2,922.4	\$2,300.3	\$10,110.3	
Qualified Zone Academy Bonds		\$9.80	\$8.30			

Note: At the 2002 session, \$457 million in general funds authorized for capital projects in fiscal 1999-2002 was withdrawn to balance the budget. A significant number of these projects were funded with bonds in fiscal 2003. The amounts in this table do not reflect this funding shift. The fiscal 2000-2002 amounts have been reduced to reflect those projects for which general funds were withdrawn, but not replaced with bond funds in fiscal 2003.

Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Chapter 8.

The Capital Budget Process and Debt Affordability

The General Assembly's action on the capital budget is somewhat different from the operating budget in that a portion of the financing for the capital budget is through the issuance of bonds, not tax revenues, and items may be added as well as deleted from the bond program by the General Assembly. Like the operating budget, work on the capital budget is a continuing process.

Capital Budget Process

The capital budget cycle includes three continuing phases similar to the operating budget: formulation, enactment, and execution. Exhibit 8.1 graphically presents these phases, which are explained below.

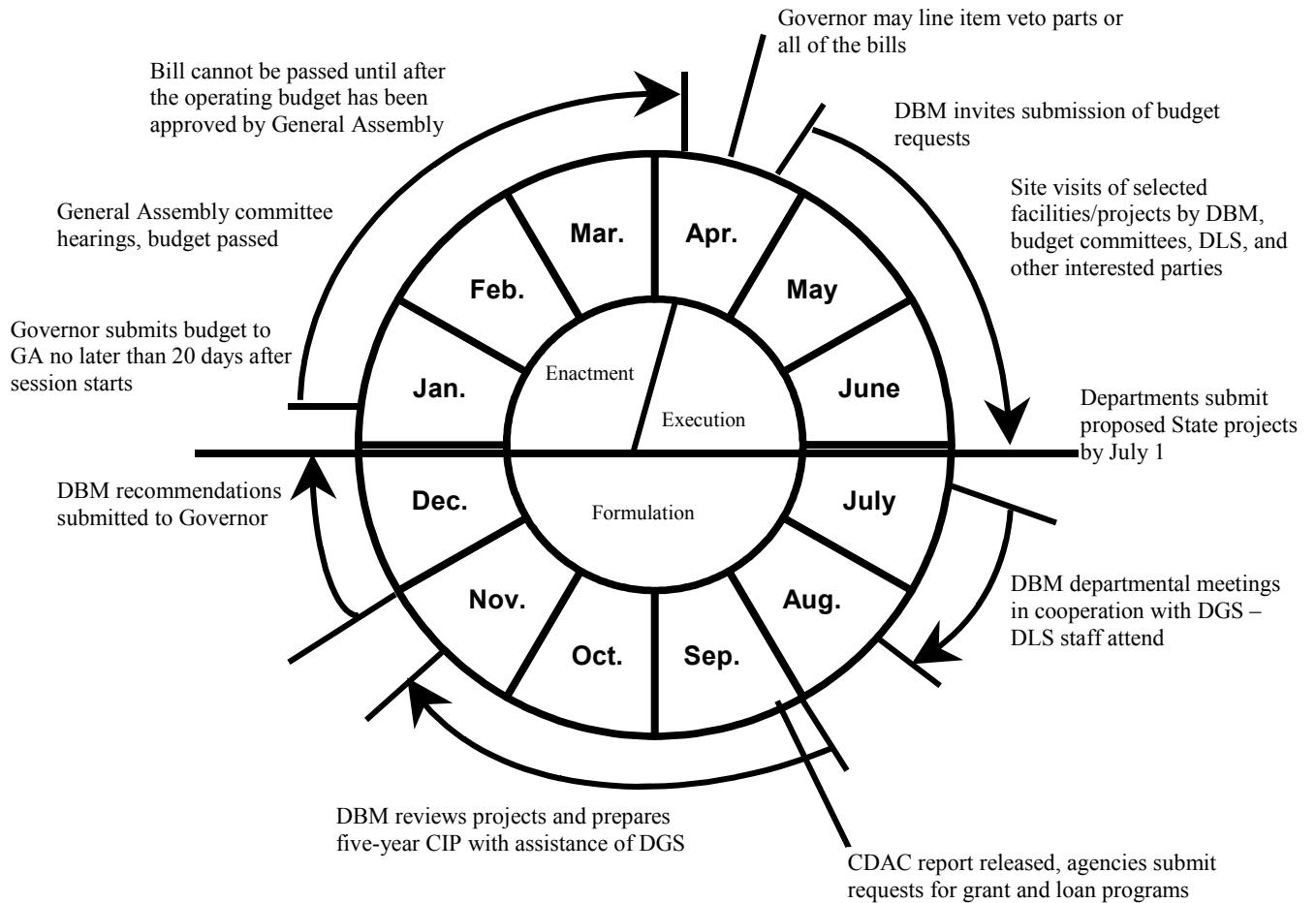
Formulation

The formulation phase begins when the departments and agencies proposing capital improvements prepare capital budget requests. These requests are submitted to the Department of Budget and Management, Division of Capital Budgeting no later than July 1 for introduction at the upcoming legislative session.

During the summer, the Capital Debt Affordability Committee meets to analyze the State's debt status and to make recommendations to the Governor and the General Assembly as to the maximum amount of new general obligation debt that should be authorized during the upcoming session of the General Assembly. By mid-October, after considering the committee's recommendations (which are due September 10), the Governor prepares a preliminary allocation of the amount of debt to authorize for State-owned facilities, public school construction, and other grants and loans. These allocations may be modified by the Governor as new information is received during the fall.

In November, the Department of Legislative Services presents an independent analysis of debt affordability to the Spending Affordability Committee. The report is also provided to the budget committees. This report, *Effect of Long-Term Debt on the Financial Condition of the State*, includes a recommended amount of new debt authorization for the forthcoming session of the legislature and responds to the recommendations of the Capital Debt Affordability Committee.

Exhibit 8.1 Capital Improvement Program Budget Cycle



Abbreviations:

CDAC – Capital Debt Affordability Committee
 CIP – Capital Improvement Program
 DBM – Department of Budget and Management
 DGS – Department of General Services
 DLS – Department of Legislative Services
 GA – General Assembly

Source: Department of Legislative Services

The report also includes:

- an analysis of the State's debt affordability based on criteria utilized by the Capital Debt Affordability Committee;
- an analysis of various options with respect to current funding of the State's capital program;
- an analysis of the State's capital program;
- an analysis of the State's special authority revenue debt; and
- a market analysis of Maryland's general obligation bonds.

After reviewing the Department of Legislative Services' report, the Spending Affordability Committee includes a recommendation on the appropriate level of new general obligation debt authorization for the coming year in its report to the Governor and the General Assembly.

By the end of November, the Department of Budget and Management, Division of Capital Budgeting has refined its analysis of the State's capital needs and makes recommendations to the Governor with respect to the General Construction Fund and administration programs. The public school construction program is simultaneously developed by the Interagency Committee on Public School Construction, generally working within the preliminary allocation set by the Governor in September. Also at this time, higher educational institutions may begin to draft legislation, which will increase higher education's debt ceiling and authorize academic facilities to be funded by tuition bonds.

Enactment

Following the Governor's decisions and review by the Department of Budget and Management, the capital budget is presented to the General Assembly. The capital budget bill is introduced by the presiding officer of each house as an administration bill by the twentieth day of the session. As an appropriations bill, it is assigned to the budget committees and may not be finally acted upon until the operating budget bill has been passed (usually one week prior to adjournment). The State Budget Books set forth the total amount of State debt to be created and detail the funds to be allocated, by agency, to specific purposes for each capital project proposed. This includes PAYGO funding included in the operating budget. These capital projects are reviewed in the same manner

as capital projects in the capital budget bill, but legislative action is taken at the time the operating budget is considered and is limited to the legal constraints on the legislature with respect to the operating budget.

The Maryland Consolidated Capital Bond loan bill is analyzed by the legislative staff of the Department of Legislative Services in a manner similar to the analysis of the operating budget. Recommendations are presented to the budget committees and also are contained in a volume of the *Analysis of the Maryland Executive Budget*. The committees may review proposed projects in the bill at the same time the operating budget is being reviewed, or may utilize a separate capital budget subcommittee. In recent years, the House Committee on Appropriations has reviewed the capital budget utilizing the same subcommittees that review the operating budget. The subcommittees then make recommendations to a Capital Budget Subcommittee that in turn reports to the full committee. The individual bond bills for special projects, however, are heard by the full committee with recommendations developed by the Capital Subcommittee. The Senate Budget and Taxation Committee utilizes a separate capital budget subcommittee which reviews and makes recommendations to the full committee on both the capital budget bill and the individual bond bills. Decisions concerning capital projects and committee amendments to the capital budget bill generally are not made until committee action on the operating budget bill is completed. The committees bring the capital budget bill to the floor in a manner similar to that described for the operating budget bill (i.e., a reprint of the bill incorporating committee amendments and a report explaining each amendment). However, unlike the operating budget bill, usually separate capital budget bills move through their respective houses until the final stage when one bill is enacted.

Also, unlike the operating budget, the General Assembly has the power to modify the bond bill within broad parameters. The projects proposed by the Governor may be deleted, the amounts allocated for specific purposes of a project may be increased or decreased, or the General Assembly may add specific projects and dollar amounts. The bond bill must contain an effective date (usually June 1 of the session year), and it is not enacted until signed by the Governor. In the case of the capital budget bill, the Governor has veto power or may exercise partial (line item) veto of the bond bill. Such action is rarely taken. The last time the line item veto was exercised was in 1991 with the veto of planning funds for a police barracks, a project added by the General Assembly.

Execution

The execution phase of most approved capital projects is managed by the Department of General Services. In addition, the University System of Maryland, Maryland Environmental Service, Morgan State University, and the Department of Public

Safety and Correctional Services have been given autonomy to manage their own capital projects.

Capital projects progress through definable stages: a project program is developed, land is acquired, an architect is appointed and preliminary planning occurs, detailed plans are developed, and construction follows. Equipment essential to the operation of the facility is obtained. Finally, the capital project is accepted, staffed, and placed in operation. This process of execution takes considerable time under current practices. A period of four or more years may elapse between the time a project is submitted to the Division of Capital Budgeting and the State agency actually places it in operation.

Debt Affordability

Creation of the Capital Debt Affordability Committee was an outgrowth of two events: the dramatic increase in outstanding debt during the mid-1970s and the release of the Department of Fiscal Services' two-year study on the State's debt picture titled *An Analysis and Evaluation of the State of Maryland's Long-Term Debt: 1958-1988*.

In response to this study and the rising level of State debt, the 1978 session of the General Assembly adopted the current State Finance and Procurement Article, Section 8-104, which created the committee as a unit of the executive department. The members currently are the Treasurer (Chair), the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, and one public member appointed by the Governor. The committee is required to review the size and condition of State debt on a continuing basis and to submit to the Governor, by September 10 of each year, an estimate of the total amount of new general obligation debt that prudently may be authorized for the next fiscal year. Although the committee's estimates are advisory only, the Governor is required to give due consideration to the committee's findings in determining the total authorizations of new State debt and in preparing a preliminary allocation for the next fiscal year. The committee is required to consider:

- the amount of additional general obligation debt that will be authorized during the next fiscal year;
- the capital program and school construction needs during the next five fiscal years;
- projected debt service requirements for the next ten years;

- criteria established or used by recognized bond rating agencies in judging the quality of State bond issues;
- on a continuing basis, the size and condition of higher education debt, taking into account any debt issued for academic facilities as part of the committee's affordability analysis;
- other factors relevant to the ability of the State to meet its projected debt service requirements for the next five years or relevant to the marketability of State bonds; and
- the effect of new authorizations on each of the factors enumerated above.

In keeping with a narrow interpretation of its statutory charge, the committee's efforts through 1986 focused mainly on bringing the State's general obligation debt in line with certain parameters. In 1987, however, the committee began to adopt a more comprehensive view of State debt that included all tax-supported debt in addition to general obligation debt. The main basis for adopting this broader view was that the rating agencies and investment community take a more comprehensive view of Maryland's debt when analyzing the State's obligations. Rating analysts are interested in all tax-supported debt. A second reason for adopting a more comprehensive view of debt was that other forms of long-term commitments were becoming more common. Lease obligations, particularly lease purchases, were at least more visible, if not more widely used.

The debt management criteria of 3.2 percent (the relationship of debt outstanding to personal income) and 8 percent (the relationship of debt service to revenues) continue to be used as guidelines. The broader concept of tax-supported debt (rather than just general obligation debt) continues to be operative in the committee's review, analyses, and recommendations.

The tables on the next page show that the debt levels for the past ten years have remained within the affordability guidelines (Exhibit 8.2 - Debt Outstanding and Exhibit 8.3 - Debt Service).

Exhibit 8.2
State Tax Supported Debt Outstanding
Relationship to Personal Income
(Affordability Criteria Standard = 3.2%)
(\$ in Thousands)

<u>Fiscal</u> <u>Year</u>	<u>Total Tax</u> <u>Supported Debt</u>	<u>Debt as % of</u> <u>Personal Income</u>
1994	\$3,809,088	3.07
1995	3,979,077	3.05
1996	4,191,503	3.05
1997	4,358,367	2.93
1998	4,515,906	2.85
1999	4,651,557	2.77
2000	4,468,302	2.49
2001	4,500,604	2.38
2002	4,843,730	2.42
2003	5,198,498	2.45

Source: *Report of the Capital Debt Affordability Committee, 1995 and 2001*

Exhibit 8.3
State Tax Supported Debt Service
Relationship to Revenues
(Affordability Criteria Standard = 8%)
(\$ in Thousands)

<u>Fiscal</u> <u>Year</u>	<u>Total Tax</u> <u>Supported Debt Service</u>	<u>Debt Service as</u> <u>% of Revenues</u>
1994	\$443,344	5.50
1995	522,027	6.14
1996	554,704	6.31
1997	591,585	6.45
1998	621,585	6.43
1999	598,659	5.84
2000	640,138	5.79
2001	635,980	5.51
2002	673,578	5.73
2003	722,183	5.90

Source: *Report of the Capital Debt Affordability Committee, 1995 and 2001*

The General Assembly has been effective in controlling new debt authorizations in recent years. Exhibit 8.4 displays recommended and actual levels of authorizations over the past ten years.

Exhibit 8.4
History of Recommended Debt Level to Authorization

Legislative Session	Recommended Debt Level	Actual Authorization	Variance
1993	\$350,000,000	\$369,995,125 ^(A)	\$19,995,125
1994	380,000,000	379,889,068	(110,932)
1995	390,000,000	369,960,000 ^(B)	(20,040,000)
1996	400,000,000	389,990,772 ^(C)	(10,009,228)
1997	415,000,000	414,993,000	(7,000)
1998	430,000,000	430,000,000	0
1999	445,000,000	444,998,000	(2,000)
2000	460,000,000	460,000,000 ^(D)	0
2001	505,000,000	504,979,500 ^(E)	(20,500)
2002	720,000,000	720,000,000 ^(F)	0

Notes:

(A) Includes \$20 million for the expansion of the Baltimore City Convention Center. It was the intent of the General Assembly that these funds be considered outside the debt limit as a one-time exception to recognize the unique nature of the project as a major investment in the State's economy. An additional \$30 million for the convention center was authorized with an effective date of June 1, 1995, to be counted against that year's debt limit. This was later amended to make \$20 million effective in 1995 and \$10 million effective in 1996.

(B) \$20 million less than the recommended limit to take into account the 1993 authorization for the Baltimore City Convention Center.

(C) \$10 million less than the recommended limit to take into account the 1993 authorization for the Baltimore City Convention Center.

(D) Excludes \$9.828 million in Qualified Zone Academy Bonds that are considered outside the general obligation bond debt limit because the State is responsible for the principal amount only. Bond holders get federal tax credits in lieu of interest payments.

(E) Excludes \$8.27 million in Qualified Zone Academy Bonds that are considered outside the general obligation bond debt limit because the State is responsible for the principal amount only. Bond holders get federal tax credits in lieu of interest payments.

(F) Authorization is consistent with the recommendation of the Spending Affordability Committee that recommended that the debt limit be increased by up to \$200 million above the \$520 million recommended by the Capital Debt Affordability Committee. The Spending Affordability Committee recommendation was made to allow the replacement of previously appropriated general fund PAYGO.

Source: Department of Legislative Services

Appendix 1

Extract from State of Maryland Constitution Article III, Sec. 52.

Section 52. How appropriations to be made; budget.

(1) The General Assembly shall not appropriate any money out of the Treasury except in accordance with the provisions of this section.

(2) Every appropriation bill shall be either a Budget Bill, or a Supplementary Appropriation Bill, as hereinafter provided.

(3) On the third Wednesday in January in each year, (except in the case of a newly elected Governor, and then not later than ten days after the convening of the General Assembly), unless such time shall be extended by the General Assembly, the Governor shall submit to the General Assembly a Budget for the next ensuing fiscal year. Each Budget shall contain a complete plan of proposed expenditures and estimated revenues for said fiscal year and shall show the estimated surplus or deficit of revenues at the end of the preceding fiscal year. Accompanying each Budget shall be a statement showing: (a) the revenues and expenditures for the preceding fiscal year; (b) the current assets, liabilities, reserves and surplus or deficit of the State; (c) the debts and funds of the State; (d) an estimate of the State's financial condition as of the beginning and end of the preceding fiscal year; (e) any explanation the Governor may desire to make as to the important features of the Budget and any suggestions as to methods for reduction or increase of the State's revenue.

(4) Each Budget shall embrace an estimate of all appropriations in such form and detail as the Governor shall determine or as may be prescribed by law, as follows: (a) for the General Assembly as certified to the Governor in the manner hereinafter provided; (b) for the Executive Department; (c) for the Judiciary Department, as provided by law, as certified to the Governor; (d) to pay and discharge the principal and interest of the debt of the State in conformity with Section 34 of Article III of the Constitution, and all laws enacted in pursuance thereof; (e) for the salaries payable by the State and under the Constitution and laws of the State; (f) for the establishment and maintenance throughout the State of a thorough and efficient system of public schools in conformity with Article 8 of the Constitution and with the laws of the State; and (g) for such other purposes as are set forth in the Constitution or laws of the State.

(5) The Governor shall deliver to the presiding officer of each House the Budget and a bill for all the proposed appropriations of the Budget classified and in such form and detail as he shall determine or as may be prescribed by law; and the presiding officer of each House shall promptly cause said bill to be introduced therein, and such bill shall be known as the "Budget Bill." The Governor may, with the consent of the General Assembly, before final action thereon by the General Assembly, amend or supplement said Budget to correct an oversight, provide funds contingent on passage of pending legislation or, in case of an emergency, by delivering such an amendment or supplement to the presiding officers of both Houses; and such amendment or supplement shall thereby become a part of said Budget Bill as an addition to the items of said bill or as a modification of or a substitute for any item of said bill such amendment or supplement may affect.

(5a) The Budget and the Budget Bill as submitted by the Governor to the General Assembly shall have a figure for the total of all proposed appropriations and a figure for the total of all estimated revenues available to pay the appropriations, and the figure for total proposed appropriations shall not exceed the figure for total estimated revenues. Neither the Governor in submitting an amendment or supplement to the Budget Bill nor the General Assembly in amending the Budget Bill shall thereby cause the figure for total proposed appropriations to exceed the figure for total estimated revenues, including any revisions, and in the Budget Bill as enacted the figure for total estimated revenues always shall be equal to or exceed the figure for total appropriations.

(6) The General Assembly shall not amend the Budget Bill so as to affect either the obligations of the State under Section 34 of Article III of the Constitution, or the provisions made by the laws of the State for the establishment and maintenance of a system of public schools or the payment of any salaries required to be paid by the State of Maryland by the Constitution thereof; and the General Assembly may amend the bill by increasing or diminishing the items therein relating to the General Assembly, and by increasing or diminishing the items therein relating to the judiciary, but except as hereinbefore specified, may not alter the said bill except to strike out or reduce items therein, provided, however, that the salary or compensation of any public officer shall not be decreased during his term of office; and such bill, when and as passed by both Houses, shall be a law immediately without further action by the Governor.

(7) The Governor and such representatives of the executive departments, boards, officers and commissions of the State expending or applying for State's moneys, as have been designated by the Governor for this purpose, shall have the right, and when requested by either House of the General Assembly, it shall be their duty to appear and be heard with respect to any Budget Bill during the consideration thereof, and to answer inquiries relative thereto.

(8) Supplementary Appropriation Bill. Either House may consider other appropriations but both Houses shall not finally act upon such appropriations until after the Budget Bill has been finally acted upon by both Houses, and no such other appropriation shall be valid except in accordance with the provisions following: (a) Every such appropriation shall be embodied in a separate bill limited to some single work, object or purpose therein stated and called herein a Supplementary Appropriation Bill; (b) Each Supplementary Appropriation Bill shall provide the revenue necessary to pay the appropriation thereby made by a tax, direct or indirect, to be levied and collected as shall be directed in said bill; (c) No Supplementary Appropriation Bill shall become a law unless it be passed in each House by a vote of a majority of the whole number of the members elected, and the yeas and nays recorded on its final passage; (d) Each Supplementary Appropriation Bill shall be presented to the Governor of the State as provided in Section 17 of Article 2 of the Constitution and thereafter all the provisions of said section shall apply.

(9) Nothing in this section shall be construed as preventing the General Assembly from passing at any time, in accordance with the provisions of Section 28 of Article 3 of the Constitution and subject to the Governor's power of approval as provided in Section 17 of Article 2 of the Constitution, an appropriation bill to provide for the payment of any obligation of the State within the protection of Section 10 of Article 1 of the Constitution of the United States.

(10) If the Budget Bill shall not have been finally acted upon by the Legislature seven days before the expiration of the regular session, the Governor shall issue a proclamation extending the session for some further period as may, in his judgment, be necessary for the passage of such bill; but no matter other than such bill shall be considered during such extended session except a provision for the cost thereof.

(11) For the purpose of making up the Budget, the Governor shall require from the proper State officials, (including all executive departments, all executive and administrative offices, bureaus, boards, commissions and agencies that expend or supervise the expenditure of, and all institutions applying, for State moneys and appropriations) such itemized estimates and other information, in such form and at such times as directed by the Governor. An estimate for a program required to be funded by a law which will be in effect during the fiscal year covered by the Budget and which was enacted before July 1 of the fiscal year prior to that date shall provide a level of funding not less than that prescribed in the law. The estimates for the Legislative Department, certified by the presiding officer of each House, of the Judiciary, as provided by law, certified by the Chief Judge of the Court of Appeals, and for the public schools, as provided by law, shall be transmitted to the Governor, in such form and at such times as directed by the Governor, and shall be included in the Budget without revision.

(12) The Governor may provide for public hearings on all estimates and may require the attendance at such hearings of representatives of all agencies, and for all institutions applying for State moneys. After such public hearings he may, in his discretion, revise all estimates except those for the legislative and judiciary departments, and for the public schools, as provided by law, and except that he may not reduce an estimate for a program below a level of funding prescribed by a law which will be in effect during the fiscal year covered by the Budget, and which was enacted before July 1 of the fiscal year prior thereto.

(13) The General Assembly may, from time to time, enact such laws not inconsistent with this section, as may be necessary and proper to carry out its provisions.

(14) In the event of any inconsistency between any of the provisions of this Section and any of the other provisions of the Constitution, the provisions of this Section shall prevail. But nothing herein shall in any manner affect the provisions of Section 34 of Article 3 of the Constitution or of any laws heretofore or hereafter passed in pursuance thereof, or be construed as preventing the Governor from calling extraordinary sessions of the General Assembly, as provided by Section 16 of Article 2, or as preventing the General Assembly at such extraordinary sessions from considering any emergency appropriation or appropriations.

(15) If any item of any appropriation bill passed under the provisions of this Section shall be held invalid upon any ground, such invalidity shall not affect the legality of the bill or of any other item of such bill or bills.

Appendix 2

State Finance and Procurement Article

Title 7. Appropriations

Subtitle 1. State Operating Budget

Part I. Definitions; General Provisions.

§ 7-101. Definitions

- (a) In this subtitle the following words have the meanings indicated.
- (b) “Proposed budget” means:
 - (1) the budget bill; and
 - (2) the budget books and other documents that support the budget bill.
- (c) “Secretary” means the Secretary of Budget and Management.

§ 7-102. Legislative Intent

(a) The General Assembly desires that, during preparation of a proposed budget, the Governor review, thoroughly and in detail, the recommendations of the Spending Affordability Committee.

(b) To have the complete financial program of the Governor early in a regular session, the General Assembly desires that the Governor:

- (1) submit with the proposed budget for a fiscal year:
 - (i) the Governor’s complete financial program for that fiscal year; and
 - (ii) each bond or revenue bill proposed to carry out the program; and
- (2) use a supplemental budget amendment only to:

- (i) correct a mechanical error in the proposed budget; or
- (ii) provide funding for legislation enacted during the session.

§ 7-103. Studies

(a) (1) The Secretary shall continually conduct studies on the needs of units of the Executive Branch of the State government and of private entities to which the State appropriates money.

(2) To obtain the information that the Secretary wants in estimating the needs of the unit or entity, the Secretary may:

- (i) question any officer or employee of the unit or entity; and
- (ii) examine the records of the unit or entity.

(b) The Secretary shall:

(1) continually compare the needs of the units of the Executive Branch of the State government and of the private entities with the revenues that are collected;

(2) prepare estimates of revenues that will be available for the State budget;

(3) prepare any other estimates of revenues that the Governor requests;

(4) study the revenue structure of the State;

(5) evaluate the sources of State revenues; and

(6) recommend to the Governor:

- (i) appropriate changes in the revenue structure of the State; and
- (ii) new sources of State revenues.

(c) (1) The studies of the units of the Executive Branch of the State government shall include:

- (i) program analyses; and

(ii) careful consideration of the administration, organization, functions, and duties of the units, to identify duplication or overlap.

(2) On the basis of the studies, the Secretary shall report to the Governor on changes that the Secretary believes would result in economy or efficiency or otherwise would be in the State's best interest, including:

- (i) elimination or reduction of State programs;
- (ii) abolition of positions;
- (iii) changes in procedures; and
- (iv) reorganization or consolidation of units.

(3) The Secretary shall send a copy of each report under this subsection, subject to § 2-1246 of the State Government Article, to the Executive Director of the Department of Legislative Services.

§ 7-104. Preparation of draft of proposed budget.

(a) (1) The Secretary shall prepare for the Governor a draft of the proposed budget.

(2) The draft shall:

- (i) be comprehensive;
- (ii) eliminate duplication and conflict; and

(iii) include each item that the Governor is required by law to include in a proposed budget.

(b) The Secretary shall include in the draft items for capital improvements.

(c) The Secretary may specify:

- (1) the form to be used by a unit of the Executive Branch of the State government or a private entity to request an appropriation from the State;

- (2) information that must be submitted with the form; and
- (3) the time for submission of the form.

§ 7-105. Form of proposed budget.

Each proposed budget shall be classified as and in the form and with the detail that the Governor or law requires.

§ 7-108. Required appropriations.

(a) In accordance with the Maryland Constitution and other law, the Governor shall include in each budget bill:

- (1) an appropriation to pay the principal of and interest on the State debt;
- (2) without revision, the appropriations requested for public schools, as certified by the State Superintendent of Schools;
- (3) without revision, the appropriations requested for the Legislative Branch of the State government, as certified by the presiding officers of the General Assembly;
- (4) without revision, the appropriations requested for the Judicial Branch of the State government, as certified by the Chief Judge of the Court of Appeals;
- (5) the appropriations requested by the Governor for the Executive Branch of the State government;
- (6) the appropriations required by law to be included with the appropriations for the Executive Branch;
- (7) appropriations for the salaries required by law to be paid by the State; and
- (8) any other appropriations required by the Maryland Constitution or other law to be included in the budget bill.

(b) The Governor shall use the current salary plan of the Secretary of Budget and Management as the basis for the appropriations to pay those salaries to which the plan applies.

§ 7-109. Executive pay plan.

(a) Each budget bill shall contain a separate section that includes:

(1) the proposed salary schedule for the executive pay plan established under Title 8, Subtitle 1 of the State Personnel and Pensions Article, which shall be in effect for that fiscal year; and

(2) a listing of the job classification and title of each position in the executive pay plan, including the proposed salary grade for each position.

(b) In addition to the separate section required under subsection (a) of this section, each budget bill shall contain a separate section that includes:

(1) a listing, by the unit of State government, of the job classification of each position with flat rate or per diem compensation in excess of the minimum salary in the proposed executive pay plan. The listing shall include, but not be limited to, constitutional officers, positions for which salaries by law are determined by judicial salaries, and positions for which salaries are determined by an agency with independent salary setting authority that have not been included in the executive pay plan;

(2) the number of positions in each of those job classifications; and

(3) the amount of the salary proposed for each of those job classifications.

(c) (1) The salary schedule and proposed salary grade, as provided in accordance with subsection (a) of this section, shall be subject to approval by the General Assembly.

(2) The proposed salary for job classifications, as provided in accordance with subsection (b) of this section, shall be subject to approval by the General Assembly.

§ 7-110. Department of Transportation

(a) (1) In this section the following words have the meanings indicated.

(2) “Capital expenditure” means an expenditure made by the Department of Transportation for:

(i) the construction, reconstruction, or rehabilitation of a transportation facility, as defined in § 3-101(l) of the Transportation Article; or

(ii) capital equipment as defined by the Secretary of Transportation.

(3) “Modal administration” has the meaning stated in § 1-101 of the Transportation Article.

(4) “Operating expenditure” means an expenditure that is made by the Department of Transportation, including the Office of the Secretary or a modal administration, and that is not a capital expenditure.

(b) (1) Each budget bill shall set forth as part of the appropriation for the Office of the Secretary of Transportation and for each modal administration, separate items for:

(i) capital expenditures; and

(ii) operating expenditures.

(2) The budget books shall set forth, for information, a summary of the capital expenditures and operating expenditures, as defined by the Secretary of Transportation, for the Maryland Transportation Authority.

§ 7-111. University College

(a) The Governor shall include in each budget bill a lump sum appropriation to the University College of the University of Maryland.

(b) An appropriation under this section for a fiscal year shall equal the amount that University College estimates it will receive during the fiscal year from tuitions, fees, gifts, and grants and interest on those revenues.

(c) (1) The supporting documents for each budget bill shall include the annual financial information statement that University College prepares.

(2) The supporting documents need not include any other information about the appropriation under this section.

§ 7-112. Conformity with statutes.

(a) Unless specifically authorized by law, the Governor may not submit a budget bill that changes a State statute.

(b) Subject to the limitations in the Maryland Constitution, a statute that sets a salary is superseded by passage of a budget bill that alters the salary.

§ 7-113. Motor vehicle licensing and fuel tax revenues.

(a) The purposes of this section are to:

(1) carry out the purposes of the laws relating to motor vehicle licensing and motor vehicle fuel taxes; and

(2) prevent diversions of revenues that those laws generate.

(b) In a budget bill, the Governor may use the revenues that are generated by motor vehicle licensing and by motor vehicle fuel taxes, including fines and penalties, only to:

(1) construct, reconstruct, and maintain bridges, highways, roads, and streets;

(2) pay the interest on and principal of bonds that have been issued to finance the construction of bridges, highways, roads, and streets; or

(3) enforce those laws.

§ 7-114. Programs funded by Cigarette Restitution Fund.

(a) (1) In this section the following words have the meanings indicated.

(2) “Cancer Program” means the Cancer Prevention, Education, Screening, and Treatment Program established under Title 13, Subtitle 11 of the Health - General Article.

(3) “Tobacco Program” means the Tobacco Use Prevention and Cessation Program established under Title 13, Subtitle 10 of the Health - General Article.

(b) Each budget bill shall contain a separate section that includes the appropriation for:

(1) each Component of the Tobacco Program;

(2) each Component of the Cancer Program; and

(3) any other program that is funded with money from the Cigarette Restitution Fund established under § 7-317 of this title.

§ 7-115. Distribution of budget books.

On submission of the budget bill to the presiding officers of the General Assembly, the Governor shall send a copy of the budget books to each member of the General Assembly.

§ 7-116. Spending Affordability Committee recommendations.

Whenever a proposed budget exceeds the recommendations of the Spending Affordability Committee, the budget books shall:

(1) indicate the degree to which the proposed budget and recommendations differ; and

(2) set forth the Governor's reasons for exceeding the recommendations.

§ 7-117. Statement of estimated revenues.

The budget books for a fiscal year shall state:

(1) each source of State revenues for the year, from which the proposed appropriations are to be paid; and

(2) the amount that the Governor estimates will be collected from each source.

§ 7-118. Effect of tax exemptions on revenues.

(a) Subject to § 2-1246 of the State Government Article, the Secretary shall provide to the General Assembly on a biennial basis by no later than February 1 of the fiscal year preceding the fiscal year the report covers, a report that contains a statement of the estimated amount by which exemptions from taxation reduce, for the year:

(1) State revenues; and

(2) revenues that the State collects for local governments.

(b) For each exemption, the statement shall:

(1) show the estimated amount by which the exemption reduces revenues;

(2) identify the person or the part of the population that benefits from the exemption; and

(3) say whether the exemption conflicts with any other State program.

(c) The statement shall include:

(1) each subtraction modification under § 10-207, § 10-208, or § 10-209 of the Tax - General Article; and

(2) each exemption under:

(i) Title 8, Subtitle 7 of the Natural Resources Article;

(ii) § 5-104, § 6-103, § 7-203, § 7-303, § 9-203, § 9-303, § 9-304, § 10-104, § 10-211, § 10-212, § 12-104, or Title 11, Subtitle 2 of the Tax - General Article;

(iii) Title 7 of the Tax - Property Article; and

(iv) § 13-810 or § 13-903 of the Transportation Article.

(d) The Comptroller, the Department of Assessments and Taxation, the Department of Labor, Licensing, and Regulation, the Department of Natural Resources, the Department of Transportation, and other units of the State government shall help the Secretary of Budget and Management to prepare a draft of the statement under this section.

§ 7-119. Annuity bond accounts.

The budget books for a fiscal year shall contain a summary of the annuity bond accounts of the State as of the end of the last full fiscal year.

§ 7-120. Federal reimbursement.

The budget books for a fiscal year shall:

- (1) include a copy of the statewide cost allocation plan filed with the federal government for federal reimbursement of the costs of indirect State services that benefit federally funded programs; and
- (2) list, by unit of the State government, the amount of reimbursement received under the plan during the last full fiscal year.

§ 7-121. Operating expenses of State units.

(a) The budget books shall contain a section that, by unit of the State government, sets forth, for each program or purpose of that unit:

- (1) the total number of officers and employees and the number in each job classification:
 - (i) authorized in the State budget for the last full fiscal year and the current fiscal year; and
 - (ii) requested for the next fiscal year;
- (2) the total amount for salaries of officers and employees and the amount for salaries of each job classification:
 - (i) spent during the last full fiscal year;
 - (ii) authorized in the State budget for the current fiscal year; and

- (iii) requested for the next fiscal year; and
 - (3) an itemized statement of the expenditures for contractual services, supplies and materials, equipment, land and structures, fixed charges, and other operating expenses:
 - (i) made in the last full fiscal year;
 - (ii) authorized in the State budget for the current fiscal year; and
 - (iii) requested for the next fiscal year.
- (b) In its annual submission of the proposed budget, the Department of Budget and Management shall provide, for informational purposes, a budget presentation that includes a description of the proposed expenditures under the Maryland Emergency Medical System Operations Fund for the:
 - (1) Maryland Institute for Emergency Medical Services Systems;
 - (2) R Adams Cowley Shock Trauma Center;
 - (3) Maryland Fire and Rescue Institute;
 - (4) Aviation Division of the Special Operations Bureau, Department of State Police; and
 - (5) grants under the Senator William H. Amoss Fire, Rescue, and Ambulance Fund.
- (c)
 - (1)
 - (i) In this subsection the following words have the meanings indicated.
 - (ii) “Cancer Program” means the Cancer Prevention, Education, Screening, and Treatment Program established under Title 13, Subtitle 11 of the Health - General Article.
 - (iii) “Tobacco Program” means the Tobacco Use Prevention and Cessation Program established under Title 13, Subtitle 10 of the Health - General Article.

(2) The budget books shall contain a budget presentation that provides an overview of the proposed expenditures for:

(i) the Tobacco Program, including the proposed expenditures for:

1. each Component of the Tobacco Program;
2. each program funded under each Component of the Tobacco Program; and

3. each Local Public Health Tobacco Grant;

(ii) the Cancer Program, including the proposed expenditures for:

1. each Component of the Cancer Program;
2. each program funded under each Component of the Cancer Program;

3. each Local Public Health Cancer Grant;
4. each statewide Academic Health Center Public Health Grant;

5. each statewide Academic Health Center Cancer Research Grant;

6. each statewide Academic Health Center Tobacco-Related Diseases Research Grant; and

7. each statewide Academic Health Center Network Grant; and

(iii) any other program that is funded with the Cigarette Restitution Fund established under § 7-317 of this title.

Appendix 3

Subobject Definitions

Object .01 Salaries, Wages & Fringe Benefits

0101 Regular Earnings	0102 Additional Assistance
0104 Overtime Earnings	0105 Shift Differential
0110 Miscellaneous Adjustments	0111 Accrued Leave Payout
0112 Reclassification	0120 Student Payments (USM only)
0151 Social Security Contributions	0152 Health Insurance
0153 Health Insurance - Special Subsidies	0154 Retirees Health Insurance Premiums
1055 Sick Leave Incentive Program	0156 PEP Bonuses
0160 Early Retirement Surcharge	0161 Employees' Retirement System
0163 Teachers' Retirement System	0165 State Police Retirement System
0166 Judges' Pension System	0167 Mass Transit Administration Pension System
0168 Optional Retirement/Pension System	0169 DNR Police Retirement System
0170 Other Retirement Systems	0171 Other Pension Systems
0172 Deferred Compensation Match	0174 Unemployment Compensation
0175 Workers' Compensation	0176 Workers' Compensation Reserve Fund
0181 Tuition Waivers	0182 Employee Transit Expenses
0189 Turnover Expectancy	0199 Other Fringe Benefit Costs

Object .02 Technical and Special Fees

0201 Honorariums	0202 Per Diem Payments
0203 Clerical/Secretarial Support	0204 Legal Service Support
0205 Medical Service Support	0206 Religious Service Support
0207 Social Service Support	0208 Training and Staff Development
0209 Admin./Management Services Support	0210 Patient and Student Payments
0211 Employee Awards	0212 Athletic Services Support
0213 Social Security Contributions	0214 Unemployment Compensation

0216 Royalty Payments
 0220 Special Payments Payroll
 0289 Contractual Turnover Expectancy
 0301 Postage

Object .03 Communications

0303 Telecommunications
 0305 DBM Paid Telecommunications
 0395 Corporate Purchasing Card

Object .04 Travel

0401 In-State/Routine Operations
 0403 Out-of-State/Routine Operations
 0495 Corporate Purchasing Card

Object .06 Fuel and Utilities

0601 Fuel-Alcohol
 0603 Fuel-Oil #2
 0605 Fuel-Oil #6
 0607 Fuel-Wood
 0619 Fuel-Miscellaneous
 0621 Utilities-Water/Sewage
 0695 Corporate Purchasing Card
 0698 Loan Repayment-Energy Cons. Loan Fund

0217 Health Insurance - MDOT only
 0221 Prizes and Awards to Non-Employees
 0299 Other Technical and Special Fees
 0302 Telephone

0304 Misc. Communications Charges
 0322 Capital Lease (Telecommunications)

0402 In-State/Conferences/Seminars/Training
 0404 Out-of-State/Conferences/Seminars/Training

0602 Fuel-Coal
 0604 Fuel-Oil #3
 0606 Fuel-Natural Gas/Propane
 0608 Fuel-Steam
 0620 Utilities-Electricity
 0622 Utilities-Combined Utility Purchases
 0697 MES Charges
 0699 Utilities-Miscellaneous

Object .07 Motor Vehicle Operations and Maintenance
Cars, Station Wagons, Carryalls and Vans

0701 Purchase Cost or Lease Cost
 0703 Maintenance and Repair
 0705 Garage Rent

0702 Gas and Oil
 0704 Insurance

Aircraft

0710 Purchase Cost or Lease Cost	0711 Gas and Oil
0712 Maintenance and Repair	0713 Insurance
0714 Hangar Rental/Landing Fees	

Watercraft

0720 Purchase Cost or Lease Cost	0721 Gas and Oil
0722 Maintenance and Repair	0723 Insurance
0724 Boat Slip Rental/Launching Fees	

Other Land Vehicles

0730 Purchase Cost or Lease Cost	0731 Gas and Oil
0732 Maintenance and Repair	0733 Insurance
0734 Garage or Storage Space Rental	0789 Vehicle Commuter Charge
0795 Corporate Purchasing Card	0799 Other Motor Vehicle Charges

Object .08 Contractual Services

0801 Advertising and Legal Publication	0803 Architects
0804 Printing/Reproduction	0805 Bookbinding/Photographic
0806 Microfilming	0807 Engineers
0808 Equipment Rental (other than Data Proc.)	0809 Equipment Repairs and Maintenance
0810 Extermination	0811 Food Services
0812 Building/Road Repairs and Maintenance	0813 Janitorial Services
0814 Grounds Maintenance	0815 Laundry
0816 Housekeeping	0817 Legal Services
0818 Purchase of Care Services	0819 Education/Training Contracts
0820 Medical Care (Physicians Dental, Etc.)	0821 Management Studies and Consultants
0822 Hospital Care	0823 Security Services
0824 Laboratory Services	0825 Veterinarian

0826 Freight and Delivery	0827 Trash and Garbage Removal
0828 Office Assistance	0829 Fiscal Service
0830 Medical Care Assistance Program	0831 Administrative Hearings
0832 Education & Training Reimbursement – Job Related	0841 Data Proc. Central Proc. Unit & Consoles
0843 Communications Controllers	0844 Magnetic Tape Devices
0845 Direct Access Storage Devices (DASD)	0848 Terminal Teleprocessing Equipment
0849 Telecomm. Lines, Modems, Controller, etc.	0850 Peripheral Equip. - Printers, Terminals, etc.
0852 Data Entry Devices	0854 Computer Maintenance Contracts
0857 Other Data Processing Hardware	0858 Software Licenses
0861 Application Software (Acquisition)	0862 Applications Software (Maintenance)
0863 Systems Software (Acquisition)	0864 Systems Software (Maintenance)
0865 Outside Services-Systems Analysis & Design	0866 Outside Services-Programming
0867 Outside Services-Data Entry	0868 Outside Services-DP Training
0869 Outside Services-Computer Usage	0872 Outside Services-Consulting Services
0873 Outside Services-Other	0878 In State Services-Systems Anal. & Design
0879 In State Services-Programming	0880 In State Services-Data Entry
0881 In State Services-DP Training	0882 In State Services-Computer Use (ADC only)
0883 In State Services-Tape Maintenance	0885 In State Services-Other
0886 In State Services-Computer Use-Other than ADC	0890 Data Processing-Microfilming/Microfiching
0891 Data Processing-Freight	0892 Data Processing-Academic/Research
0893 Data Processing-Administrative	0895 Corporate Purchasing Card
0898 Data Processing-Other Contr. Services-DP	0899 Other Contr. Services Non-DP

Object .09 Supplies and Materials

0901 Agriculture	0902 Office Supplies
0903 Audio Visual	0904 Building and Household
0905 Cosmetic	0906 Laboratory
0907 Dietary	0908 Housekeeping

0909 Medical	0910 Laundry
0911 Medicine, Drugs and Chemicals	0912 Wearing Apparel-Uniforms Employees
0913 Wearing App-Unif. Clients (Patients, Prisoners)	0914 Instructional Supplies
0915 Library Supplies	0916 Recreational Supplies
0917 Small Tools	0918 Veterinary
0919 Tobacco	0920 Food
0921 Data Processing Computer Forms	0926 Data Processing Supplies
0930 Microcomputer Pkgd. Applications Software	0932 Microcomputer Operating Systems Software
0933 Software Upgrades	0951 Items for Resale
0990 Data Processing-Academic/Research	0991 Data Processing-Administrative
0995 Corporate Purchasing Card	0998 Data Processing-Other Materials
0999 Other Supplies and Materials	

Object .10 Equipment Replacement

1001 Agricultural Equipment	1002 Audio-Visual Equipment
1003 Cleaning Equipment	1004 Dental Equipment
1005 Dietary Equipment	1006 Duplicating Equipment
1007 Educational Equipment	1008 Household Equipment
1009 Human Environmental Equipment	1010 Laboratory Equipment
1011 Laundry Equipment	1012 Livestock
1013 Maintenance and Building Equipment	1014 Medical Equipment
1015 Office Equipment	1016 Power Plant Equipment
1017 Recreational Equipment	1018 Veterinary Equipment
1019 Radios and Electronic Equipment	1021 Capital Lease-Payment to Treasurer (Non-DP)
1022 Capital Lease (Non-DP)	1023 Operating Lease (Non-DP)
1024 Install. Payment to Treas.(Non-DP, Non-Cap.)	1031 Data Processing Equipment-Mainframe
1032 Data Processing Equipment-Minicomputer	1033 Data Processing Equipment-Microcomputer
1034 Data Processing Equipment-Workstations	1035 Data Processing Equipment-Imaging Systems

1036 Data Processing Equipment-Peripherals	1041 Capital Lease-Payment to Treasurer (DP)
1042 Capital Lease (DP)	1043 Operating Lease (DP)
1044 Install. Payment to Treas. (DP, Non-Capital)	1090 Data Processing-Academic/Research
1091 Data Processing-Administrative	1095 Corporate Purchasing Card
1099 Other Equipment	

Object .11 Equipment Additional

1101 Agricultural Equipment	1102 Audio-Visual Equipment
1103 Cleaning Equipment	1104 Dental Equipment
1105 Dietary Equipment	1106 Duplicating Equipment
1107 Educational Equipment	1108 Household Equipment
1109 Human Environmental Equipment	1110 Laboratory Equipment
1111 Laundry Equipment	1112 Livestock
1113 Maintenance and Building Equipment	1114 Medical Equipment
1115 Office Equipment	1116 Power Plant Equipment
1117 Recreational Equipment	1118 Veterinary Equipment
1119 Radios and Electronic Equipment	1121 Capital Lease-Payment to Treasurer (Non – DP)
1122 Capital Lease (Non-DP)	1123 Operating Lease (Non-DP)
1124 Install. Payment to Treas. (Non-DP, Non-Cap.)	1131 DP Equipment-Mainframe
1132 DP Equipment-Minicomputer	1133 DP Equipment-Microcomputer
1134 DP Equipment-Workstations	1135 DP Equipment-Imaging Systems
1136 DP Equipment-Peripherals & Hardware Upgrades	1141 Capital Lease-Payment to Treasurer (DP)
1142 Capital Lease (DP)	1143 Operating Lease (DP)
1144 Install. Payment to Treas. (DP, Non-Cap.)	1190 Data Processing-Academic/Research
1191 Data Processing-Administrative	1195 Corporate Purchasing Card
1199 Other Equipment	

Object .12 Grant, Subsidies & Contributions

1201 Social Security Contributions-Grants	1202 Aid to Political Subdivisions
1203 Health and Insurance Grants	1204 Educational Grants
1205 Inmate Payments	1206 Grants to Other St. Gov't Prog./Agen. (MRC)
1207 Grants to Non-Governmental Entities	1208 Statewide Cost Allocation
1209 Employees' Retirement System Grants	1210 Employees' Pension System Grants
1211 Teachers' Retirement System Grants	1212 Teachers' Pension System Grants
1213 Optional Retirement System (TIAA) Grants	1214 Public Assistance Payments
1295 Corporate Purchasing Card	1296 Grants for Subsidized Rents
1297 Grants to Health Providers	1298 Taxable Grants, Subsidies and Contributions
1299 Other Grants, Subsidies and Contributions	

Object .13 Fixed Charges

1301 Rent (Non-DGS)	1302 Insurance Coverage Paid to Treasurer
1303 Rent Paid to DGS	1304 Subscriptions
1305 Association Dues	1306 Bond Payments
1307 Interest	1308 Licenses
1309 Insurance (Non Treasurer Payments)	1310 Interest on Late Payments
1311 Interest on Treasury Cash Overdrafts	1312 Interest on Treasury Deposits
1320 Bad Debt Expense	1395 Corporate Purchasing Card
1399 Other	

Object .14 Land and Structures

1401 Land	1402 Land Improvements-Existing Facilities
1410 Buildings Construction-New Facilities	1411 Buildings-Purchase/Trade
1412 Buildings - Demolition	1413 Buildings-Fixed Equipment
1414 Buildings-Professional Fees	1415 Buildings, Additions, and Other Major Improvement
1416 Utilities Extension	1430 Improvements other than Buildings - Highway Construction

1431	Improvements other than Buildings, Roads, Sidewalks and Parking Areas	1432	Improvements other than Buildings - Water Construction
1433	Loans to Private/Non-profit Individuals/Organizations	1440	Roof Repair/Replacement
1441	Building Exteriors	1442	Building Interiors
1443	Water	1444	Heating
1445	Power Lines	1446	Security Alarm Systems
1447	Road Repair Services	1448	Ground Maintenance
1449	Sheds, Gas & Oil Storage Tanks	1481	Easement Acquisitions
1495	Corporate Purchasing Card	1498	Statewide Critical Maint. Prog. (DGS Admin.)
1499	Other Land and Structures		

Appendix 4

2002 Letter to Agencies for Preparation of Budget Requests

June 1, 2002

TO: All Department and Independent Agency Budget Directors and Information Technology Directors

FROM: Department of Budget and Management (DBM)

SUBJECT: Fiscal 2004 Operating Budget Instructions

Enclosed are the instructions for the preparation and submission of the Fiscal Year 2004 State Operating Budget.

- (a) Enclosure 1 - Instructions for the Preparation and Submission of the Agency's Annual State Operating Budget Request.
- (b) Enclosure 2 - Standard Rates and Schedules to be used in Preparation of the State Operating Budget Request.
- (c) Enclosure 3 - Budget Request Formats (samples):

- (1)DBM-DA-1 Summary
- (2)DBM-DA-2 Textual Narrative (Examples: Health Benefits Subsidies Calculation; Itemization/ Justification of requested items)
- (3)DBM-DA-3A Appropriation Statement
- (4)DBM-DA-8 Motor Vehicle Operation & Maintenance Detail
- (5)DBM-DA-17 & DA-17A Collective Bargaining Costs
- (6)DBM-DA-20 Non-General Fund Income, Expenditure & Indirect Cost Recovery Summary
- (7)DBM-DA-21 Unfunded Proposals/ Supplemental Budget Separate List Budget Request
- (8)DBM-DA-22 Contractual Employees
- (9)DBM-DA-23 Schedule of Contracts/ Interagency Agreements
- (10)DBM-DA-24 Schedule of Real Property Leases

Reorganizations

You are reminded that any agency reorganization to be reflected in the upcoming budget allowance must be included in the budget request documents which are submitted to DBM on August 31st. In accordance with executive policy, no major reorganization for the request year may be proposed or submitted between September 1st and December 31st. Agency budget documents for the Actual Year and Appropriation Year must be presented consistent with any reorganization for the Request Year.

Operating Maintenance

All new or additional operating maintenance projects should be sent directly to the Assistant Manager for Maintenance Engineering, Department of General Services 301 W. Preston Street, Room 1405, Baltimore, MD 21201. If you have any questions, call (410) 767-4263.

Please note that the Request Year of the agency budget submission should exclude any general funding for the following items:

Operating maintenance projects administered by the Department of General Services

General-funded capital projects

Salaries and Benefits

Agencies should submit their requests for salaries and fringes in accord with these instructions using the pay plan for pay rates in effect January 1, 2002.

Statewide Allocations

The budget request for Fiscal 2004 should contain the same amounts by fund as the Fiscal 2003 appropriation for these items:

Sick Leave Incentive Program (0155) - applies to the Department of Public Safety and Correctional Services only

Injured Worker's Insurance Fund (IWIF) premiums (object 0175)

DBM paid telecommunications (object 0305)

Maryland Environmental Service wastewater and/or water services (0697)

Office of Administrative Hearings (object 0831)

Annapolis Data Center Charges (0882)

The Office of Budget Analysis will make the adjustments in these items to conform to Fiscal 2004 requirements.

In addition, agencies for which special-funded legislative audit chargebacks were budgeted in Fiscal 2003 should deduct them from the request for Fiscal 2004. Agency budgets will be modified as necessary by DBM once decisions about the items listed above are finalized subsequent to submission.

Submission Deadline

State agencies should submit their budget request documents to this Department as soon as possible, but **no later than August 30, 2002**. Any requested deviation to the scheduled submission dates must be submitted in writing directly to Mr. Neil Bergsman, Director of Budget Analysis, prior to the established deadline.

Unfunded Requests

Requests for funding above the level that agencies request in their Fiscal 2004 budget submission should be submitted separately on a DBM-DA-21 form no later than August 30, 2002. This form has been revised to bring together the Managing for Results process and sound budget analysis. See instructions outlined on pages 61-66.

DBM currently expects that revenue and spending affordability constraints will not provide significant funds for new initiatives or program expansions. Agencies should use careful judgment and discretion in determining which initiatives to submit as unfunded project requests. In general, unfunded initiatives should be limited strictly to items that are absolutely essential to continued agency operations.

Funding by Subobject

The Budget Bill for Fiscal 2003 requires that “to the extent possible, except for public higher education institutions, subobject expenditures shall be designated by fund.” Therefore all state agencies, except for public higher education institutions, are required to submit their Fiscal 2004 budget request with designated funding at the subobject level. This level of funding is to be reflected for the Fiscal 2002 actual, Fiscal 2003 appropriation and Fiscal 2004 budget request.

Collective Bargaining

The General Assembly requires an itemization of all costs of implementing collective bargaining agreements under Executive Order 01.01.1996.13 in Fiscal 2004. Agencies will be required to submit a separate schedule of these costs for each bargaining unit as well as the cost impact on nonbargaining employees. Instructions are outlined on pages 67-68.

Accrued Leave Payout (R*STARS Comptroller object 01111): *Section 34 of the Fiscal 2003 budget bill requires that the Department of Budget and Management create a new R*STARS Comptroller Object to budget for accrued leave payouts used when long-term employees leave State service and are entitled to payment for accrued leave. Agencies should use the new R*STARS Comptroller Object 0111 to account for accrued leave payouts for the budget book appropriation and request years within the Fiscal 2004 budget request.*

Reclassifications (R*STARS Comptroller object 01121): *Section 34 of the Fiscal 2003 budget bill requires that the Department of Budget and Management create a new R*STARS Comptroller Object to budget for reclassifications and/or hiring above the minimum for a position reclassification. Agencies should use the new R*STARS Comptroller Object 0112 to account for these reclassification costs for the budget book appropriation and request years (actual expenditures will appear as salary payments) within the Fiscal 2004 request.*

Comprehensive Appendices Reporting of Services to Children, Youth and Families and Major Publicly Funded Programs -for the Aged and Substance Abuse Treatment

The Governor's Allowance Book contains Appendices that report the budgeted costs for Services to Children, Youth, and Families (Appendix K), Major Programs for the Aged (Appendix N) and Substance Abuse Treatment (Appendix O). Agencies have been inconsistent in reporting these costs. Instructions are included on pages 74-91 to provide consistent guidelines for capturing and reporting these costs in a consistent manner.

Information Technology Master Plan (ITMP) and Information Technology Project Request (ITPR)

Sections 44 and 46 of the Fiscal 2003 budget bill establish additional reporting requirements for Information Technology programs. The Information Technology Master Plan instructions and the Information Technology Project Request instructions have had to be significantly revised to accommodate the additional reporting

requirements. The instructions for both submissions will be provided in a separate document and **workshop**.

Transit Subsidy

The employee transit benefit begun in Fiscal 2002 continues in Fiscal 2003, Fiscal 2004 and future years services. Funding of the program is based on a three-tiered cost allocation depending on the employee's county of employment. A Comptroller Object - 0182 Employee Transit Expenses - has been created to budget for this fringe benefit. **In addition, agencies will be required to identify the employment county for each position within column 133 of the HOB0 personnel file in order to calculate the cost at the Allowance level.** Detailed instructions are outlined on page 43.

Indirect Cost Allocation Plans

Where applicable, each state agency must submit a copy of its indirect cost allocation plan currently approved by the applicable Federal agency along with its Fiscal 2004 budget request. Supplemental instructions will be provided at a later date that outline the specific reporting requirements for submitting the indirect cost allocation plan.

Appendix 5

2001 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585, Acts of 1982). The committee is composed of 18 legislative members including the presiding officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the presiding officers. The committee is assisted by a four-member citizen advisory committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Consideration is given to constraining disproportionate growth in State-funded expenditures in any fiscal year which might necessitate or "build in" unsupportable levels of spending in future years. Thus, especially during periods of strong economic growth, the committee has attempted to exert a "smoothing effect" on spending.

The committee's prior recommendations and legislative action on the operating budget are set forth in the following table:

(\$ in Millions)				
<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth Rate</u>	<u>Amount</u>
1982	10.18%	\$431.9	9.62%	\$412.8
1983	9.00%	428.0	5.70%	269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800.0
2001	6.95%	885.3	6.94%	884.6

*2000 legislative action does not reflect \$266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded from the calculation during the 2000 session because they had not previously been available to the State. The 2000 growth rate including CRF dollars was 9.16%.

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, is lower now than when the spending affordability process began. As illustrated in the chart on the next page, throughout much of the 1980s, the ratio remained relatively stable. During the 1990 and 1991 sessions the combination of increased spending demands and economic slowdown caused the spending ratio to increase. Following the recession, however, operating spending in relation to personal income fell acutely. With the onset of a recession in 2001, spending in relation to personal income will again rise but will remain below the high of 7.6% reached during the last recession.

To constrain spending growth in light of the weakening economy and ensure that current spending levels are sustainable in the long term, the committee recommends adjustments to the methodology for calculating the spending affordability limit and the use of a second affordability test. The details of these proposals are provided below.

The committee's statutory responsibility is to consider spending growth in relation to growth anticipated in the State's economy. In its review of the State's economy, the committee considered both income and wealth factors in developing a broad understanding of Maryland's economic position. In determining the spending limit, the committee has considered economic performance, revenue estimates, and budget requirements.

Economy

After three years of very strong growth (1997-1999), the U.S. economy slowed significantly beginning in the second half of 2000. U.S. real (inflation-adjusted) gross domestic product grew 4.1% for all of 2000 but by the end of the year the economy was growing at a rate of less than 2%. The economy weakened further during the first half of 2001. In the second quarter, U.S. real gross domestic product grew at a 0.3% pace. The consensus among economists early in 2001 was that the U.S. economy would just miss slipping into a recession and growth would start to pick up in the second half of 2001. The terrorists attacks of September 11 changed that assessment. The attacks pushed the fragile U.S. economy into a recession. Real gross domestic product fell at a 1.1% pace in the third quarter.

The consensus economic forecasts predict the recession will be relatively short and mild. Economists expect the economy to begin to recover by the second quarter of 2002 with growth accelerating significantly in the second half of 2002. There are basically three factors driving the expectation for a short, mild recession. First, interest rates have fallen as the Federal Reserve Board has cut the federal funds rate 11 times in 2001. Second, energy prices, which soared late last year and early this year, have fallen considerably. Third, Congress is working on a stimulus package of \$75 to \$100

billion, a mix of tax cuts and additional spending. This would be in addition to a \$55 billion package that was passed shortly after September 11.

Revenues

After exceeding estimates by \$148.9 million in fiscal 2001, general fund tax revenues are expected to decline in fiscal 2002. A modest rate of growth is forecast for fiscal 2003. The Board of Revenue Estimates (BRE) expects revenues for fiscal 2002 to be \$276.3 million *less* than the estimates upon which the current budget is based. This downward revision is largely driven by the weakening economic outlook and poor revenue performance during the first five months of fiscal 2002. Three of the main revenue sources are particularly affected: the estimate for personal income tax was lowered by \$114.4 million, sales tax by \$128.0 million, and corporate income tax by \$96.1 million. With this downward revision, fiscal 2002 ongoing general fund revenue is expected to drop by \$169.9 million, or -1.7% compared to fiscal 2001. The continued phase-in of the State's personal income tax reduction and the redirection of certain revenues from the general fund to the Transportation Trust Fund to support the transit initiative account for almost \$80 million of the decline in revenue. This decrease will be mitigated by a transfer of \$119.5 million from the local income tax reserve account into general fund revenues.

Projected growth in ongoing general fund revenue for fiscal 2003 (\$154.8 million or 1.6%) reflects the rate of projected growth in the national economy, the ongoing phase-in of the State's personal income tax reduction, diversion of revenues to the Transportation Trust Fund, changes in federal tax law, and a decline in hospital patient recoveries.

Budget Requirements

The committee is projecting a \$268.6 million deficiency need for fiscal 2002 due to a number of shortfalls in Medicaid and mental health, homeland security expenditures, increased costs in foster care, and unaddressed needs in public safety and other agencies. A transfer of \$30 million in general funds to the revenue stabilization fund as a fiscal 2002 deficiency (Chapter 275, Acts of 2001) takes the State to the total projected fiscal 2002 deficit. At the same time, the fiscal 2003 budget forecast reflects the cost of legislatively mandated spending for education and other critical areas and executive multi-year commitments. The forecast assumes a smaller than usual investment in the State workforce because almost all State agency personnel are eligible for merit-based increases, but none will receive a general salary increase. Health insurance costs spurred by sharply rising prescription and health insurance costs are projected to increase 14% in fiscal 2003.

In fiscal 2003, without a decrease in expenditures or the addition of new revenue, operating expenditures could exceed revenues by \$1.3 billion (\$1.1 billion ongoing). By fiscal 2004, that disparity could be \$1.6 billion (\$1.3 billion ongoing). Factors contributing to the projected deficit include the residual effects of the fiscal 2002 and 2003 revenue shortfalls, the continuing effects of the final year of the phased-in income tax reduction, the use of general funds to maintain funding for programs previously funded with cigarette restitution and federal Temporary Assistance for Needy Families (TANF) funds, growth in Medicaid costs, and the impact of ongoing costs of 2001 session legislation.

New Methodology

The committee recommends changes to the methodology used for calculation of the spending affordability limit. Among them are the inclusion of ongoing or multi-year general fund PAYGO in the spending limit, inclusion of general fund PAYGO additions to the State capital improvement plan in the spending limit, and the “true-up” of base costs for transportation and higher education.

The committee also recommends new exclusions for fiscal 2002 homeland defense costs, payment of fiscal 2001 Medicaid and mental health bills, and business-like enterprise activities at Baltimore Washington International Airport, the Port Administration, and the State Lottery Agency. As a group, these changes bring more of the State’s spending within the SAC limit, reduce restrictions on revenue generating entities, and encourage accuracy rather than subterfuge in the budget process. The committee believes these actions will make the spending limit more effective in constraining the growth of State spending.

The three primary refinements to the spending affordability calculation methodology include:

A. Ongoing General Fund PAYGO

The committee recommends the inclusion of ongoing or multi-year general fund PAYGO commitments within the spending limit. These commitments put continuing demands on current resources and should compete equally with other public programs for resources within the limit. General funds for revolving loan accounts and capital programs involving multi-year funding streams would be captured within the limit by this change.

B. New Additions to General Fund PAYGO in the *Capital Improvement Program (CIP)*

Include within the limit any general fund PAYGO appropriations that represent additions to the State CIP submitted after the beginning of session. This will provide an incentive to use future “excess” funds in ways which accelerate the capital program or reduce the need for borrowing for projects within the plan. This will also require that supplemental budgets which distribute capital funds outside the capital plan do so within the overall spending limit.

C. True-up Base Costs for Transportation and Higher Education Funds

Through the years these costs have become understated as both the executive and legislative branches have made tentative reductions based on sometimes erroneous estimates. The error is then corrected through budget amendment after session. Consequently, the budget that is submitted and approved does not represent an accurate estimate of the real cost of services. **The committee suggests that the base for calculating the limit be adjusted upward to recognize this circumstance. It also strongly admonishes both the Governor and the legislature against understating budget requirements in the future. In the legislative context, this would mean that reductions to special funds should not as a rule authorize the amounts to be subsequently restored by budget amendment.**

D. New Exclusions

Any recommendation made by the committee will continue to take into consideration reasonable exclusions from the spending affordability limit. New exclusions recommended by the committee provide for a balance between the fiscal and programmatic needs of the State, and include:

- ***Homeland Defense:*** Circumstances have compelled the State to address a new and unplanned for threat. **The committee recommends that fiscal 2002 costs (\$25 million is the deficiency estimate) be excluded from the limit.** To the extent these costs will be ongoing, however, it also believes that fiscal 2003 needs should be counted within the limit.
- ***2001 Roll Forwards:*** Mental hygiene will be rolling costs forward from fiscal 2001. **To provide an incentive to identify and resolve those costs, the committee recommends that they be excluded from the limit.**
- ***Enterprise Activities:*** For a number of years the Maryland Department of Transportation has argued that its business-like enterprise activities at the port and airport should be excluded from the appropriation limit. **The committee concurs and recommends that those costs be excluded, up to the revenues generated by the activity.** The same rationale as that used for the port and the

airport can be logically applied to the State Lottery Agency. **The committee recommends that costs for Lottery be excluded, up to the revenue generated by the agency.**

- **Medicaid Deficiency:** A Medicaid deficit of \$173 million is forecast for fiscal 2002. **To ensure proper funding for the program, the committee recommends excluding the entire Medicaid deficiency.** The exclusion shall only apply to the extent that the budget provides adequate funding for fiscal 2003 and fully funds the fiscal 2002 deficit.

Recommendations

In light of the considerations discussed above, the committee proposes the following recommendations for the 2002 session:

1. Operating Budget

A. Spending Limit

Appropriations subject to the spending affordability limit shall be 3.95% over appropriations approved at the 2001 session, subject to the revised methodology described in this document. This limit would provide for a \$543.1 million increase in appropriations at the 2002 session, resulting in expenditures of \$14,293.2 million available to spending affordability. This limit is based on personal income growth in Maryland forecasted to be 3.6% for calendar 2002 and 5.0% for calendar 2003. Given the extreme uncertainty in the outlook, the committee believes it prudent to choose a mid-range limit.

This practical consideration is derived from the relative scarcity of general fund revenues in the near term. The BRE estimates that general fund revenues for fiscal 2003 will total \$9.8 billion. By contrast, general fund baseline operations, excluding ongoing capital and reserve fund transfers, could cost about \$10.9 billion. Budget deficiencies are expected to add \$268.6 million to 2002 session costs.

B. Fiscal 2003 Budget and Future Sustainability

Based on estimates provided to the committee, supporting the baseline budget will require at least \$1 billion in general funds over current revenues. This can come from reserves, fund balances created through additional reductions made by the Governor to the current budget, statutory transfers of special fund balances to the general fund, or by adjustments to current tax laws.

In recent years, the committee has recommended that the budget be balanced in the “business sense,” that is, that revenues be sufficient to sustain estimated ongoing costs. These recommendations have been substantially complied with when the budget is enacted. However, because ongoing costs were under-estimated in the current budget and current revenues were over-estimated, maintaining this balance in the current year will be exceedingly difficult.

To the extent the gap is closed with general fund reductions or increases to general fund revenues, budget sustainability is improved. To the extent it is simply filled with one-time reductions or cash, it is not. ***The committee recommends that future sustainability be a primary consideration in the development of the fiscal 2003 general fund budget and that the imbalance between revenues and expenditures be erased as soon as practicable.***

C. Temporary Assistance for Needy Families

Maryland receives \$229.1 million annually through the federal TANF block grant. Funding in fiscal 2003 is uncertain as Congressional reauthorization is scheduled for calendar 2002. In fiscal 2001 and 2002, excess TANF dollars available from prior years were funding ongoing State programs, but the surplus will be completely exhausted by fiscal 2003. Financing options for future years include the use of monies set aside for this purpose in the Dedicated Purpose Fund, reducing transfers of TANF dollars to the Child Care Block Grant, or substituting general funds for federal funds in programs currently funded with TANF. **The committee recommends that the budget committees closely monitor the use of TANF funds in the 2003 budget.**

2. Revenue Stabilization and General Fund Balances

In addition to its recommendation for a general fund increase, the committee recommends the prudent use of the Revenue Stabilization Fund (“Rainy Day Fund”) to address general fund needs. At the end of fiscal 2002, the committee expects the Rainy Day Fund to hold about \$566 million, \$82 million in excess of the 5% of general fund revenues established as its target balance. Fund balances and reserves are a conspicuous feature of State finance and are relied upon by bond rating agencies and others as one measure of fiscal health. **Accordingly, the committee recommends that the State retain a combined balance equivalent to 5% of general fund revenues in the Rainy Day Fund and general fund at the end of the budget period.**

3. Capital Budget

A. General Obligation Debt

The committee notes the recommendation of the Capital Debt Affordability Committee that \$520 million in general obligation bonds may be authorized at the 2002 session but finds that an upward revision to the limit is appropriate.

Even under conservative economic assumptions, \$1.2 billion in debt capacity exists, in addition to the \$520 million level recommended by the Debt Affordability Committee. Some portion of this additional capacity could be used to re-finance projects previously authorized as general fund PAYGO. It could also be helpful in relieving some portion of the roughly \$1 billion in future capital commitments that the 2001 capital plan supported with general funds.

Accordingly, the committee recommends increasing by up to \$200 million the limit proposed by the Capital Debt Affordability Committee for the 2002 session. The use of this additional bond capacity shall be limited to previously authorized PAYGO projects. This would leave \$1.0 billion in capacity in the event of an extraordinary circumstance, while giving the Governor and the legislature considerable flexibility to restructure the capital financing in the context of the total budget needs of the State.

B. PAYGO in the Capital Plan

In order to ensure that State funds will not be over committed in future years, general fund PAYGO out-year funding in the CIP **should be limited to only those uses for which tax exempt debt cannot be used (e.g., economic development, housing, environment).** This entails revision to the development of the CIP.

C. Academic Revenue Debt

The committee concurs in the recommendation of the Capital Debt Affordability Committee that \$40 million in new academic revenue bonds may be authorized at the 2002 session.

D. Operating Maintenance Exclusion

The committee notes that there is a backlog of identified operating maintenance projects at State facilities that totals over \$53 million. A backlog also exists for higher education projects. These problems, if left uncorrected, will continue to deteriorate and will eventually qualify for capital funding as major repair projects. It is more cost effective to make immediate repairs. **In an effort to reduce this backlog, the committee continues to support the exclusion from the spending affordability calculation of up to \$40 million for operating maintenance projects funded through**

the Department of General Services' operating maintenance program and higher education institutions. Projects qualifying for this exclusion should not be large construction or basic ongoing maintenance projects.

E. Transportation Debt

The draft Consolidated Transportation Program anticipates the issuance of new debt through fiscal 2007 resulting in a 85% increase in outstanding debt over fiscal 2001 levels. The committee is concerned that this increase in debt would exhaust the Transportation Trust Fund's debt capacity thereby making it more difficult to maintain the capital program if Trust Fund revenue growth slows.

Based on current revenue forecasts and the proposed increase in debt, the State transportation capital program (including State and federal funds) will average \$1.37 billion each year through fiscal 2007. To the extent transportation revenues exceed those projected by MDOT, those additional funds should be used to reduce the amount of bonds sold.

4. State Positions

Given current financial conditions, the prudent allocation of personnel resources is critical. The committee recognizes the necessity of the hiring freeze on non-essential personnel instituted by the Governor for the duration of fiscal 2002 and all of fiscal 2003 as a way to constrain State spending. **The budget committees are urged to examine whether some of the positions held vacant under the hiring freeze or other positions could be permanently abolished without seriously harming the operations of State government.** In that personnel costs comprise approximately a quarter of the State operating budget, any effort to permanently reduce personnel spending will help resolve the structural budget gap.

To further constrain the growth in State spending, the committee recommends that the creation of new positions during the 2002 session be limited to:

- **critical public safety and homeland security needs;**
- **facilities scheduled to open in fiscal 2003; and**
- **addressing workload increases in higher education and essential services at 24-hour facilities.**

Appendix 6

Letter on Conformity to Recommendations of the Spending Affordability Committee



Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF POLICY ANALYSIS
MARYLAND GENERAL ASSEMBLY

May 8, 2002

Warren G. Deschenaux
Director

The Honorable Thomas V. Mike Miller, Jr.
The Honorable Casper R. Taylor, Jr.
Co-Chairmen, Legislative Policy Committee

Gentlemen:

Section 2-1008 of the State Government Article requires that the Department of Legislative Services report to the Legislative Policy Committee the extent to which the budget as enacted by the General Assembly conforms to the recommendations of the Spending Affordability Committee.

The following is a summary of the committee's major recommendations found in its Report of the 2001 Interim with an evaluation by the Department of Legislative Services as to the extent the budget as enacted during the 2002 session conforms to these recommendations.

New Methodology

Recommendation: The committee recommends changes to the methodology for calculation of the spending affordability limit. The three primary refinements to the spending affordability calculation methodology include:

- The committee recommends the inclusion of ongoing or multi-year general fund PAYGO commitments within the spending limit.

Evaluation: For the first time, ongoing and multi-year general fund PAYGO commitments proposed by the Governor were included within the spending limit. As a result, only \$6.9 million of the \$49.6 million of general fund PAYGO dollars appropriated by the General Assembly at the 2002 session are excluded from the spending affordability limit. **The recommended change to the methodology for calculation of the spending limit was implemented.**

- Include within the limit any general fund PAYGO appropriations that represent additions to the State *Capital Improvement Program* (CIP) submitted after the beginning of session.

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Evaluation: Since no supplemental budgets were submitted by the Governor, no PAYGO appropriations were submitted after the beginning of session.

- True-up base costs for transportation and higher education funds. Through the years these costs have become understated as both the executive and legislative branches have made tentative reductions based on sometimes erroneous estimates. The error is then corrected through budget amendment after session. Consequently, the budget that is submitted and approved does not represent an accurate estimate of the real cost of services. The committee suggests that the base for calculating the limit be adjusted upward to recognize this circumstance. It also strongly admonishes the Governor and the legislature against understating budget requirements in the future. In the legislative context, this would mean that reductions to special funds should not as a rule authorize the amounts to be subsequently restored by budget amendment.

Evaluation: \$78 million was added to the funding appropriated at the 2001 session to provide a more accurate estimate of the true cost of higher education (\$53 million) and transportation services (\$25 million). The budget submitted by the Governor at the 2002 session appears to accurately reflect anticipated higher education and transportation costs. With the exception of \$4.2 million in special fund reductions to the Maryland Department of Transportation's (MDOT) budget, the General Assembly did not adopt reductions which authorize the subsequent restoration of the funds through a budget amendment.

Deficiencies/Enterprise Agencies

Recommendation: The committee also recommends new exclusions for fiscal 2002 homeland defense costs, payment of fiscal 2001 Medicaid and mental health bills, and business-like enterprise activities at the Baltimore/Washington International Airport, the Maryland Port Administration, and the State Lottery Agency. The exclusion of payment of fiscal 2001 Medicaid bills shall only apply to the extent that the budget provides adequate funding for fiscal 2003 and fully funds the fiscal 2002 deficit. Costs associated with the Maryland Aviation Administration, Maryland Port Administration, and State Lottery Agency shall be excluded, up to the revenue generated by the activity.

Evaluation: For purposes of calculating the spending limit, the General Assembly excluded all \$10.7 million in fiscal 2002 homeland defense costs and expenditures up to revenues at the Maryland Aviation Administration, Maryland Port Administration, and State Lottery Agency.

The \$139.4 million deficiency appropriation for Medicaid was included in the spending affordability calculation as the budget failed to provide adequate State funding for either

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fiscal 2002 or 2003. No funds were included in the budget to address the mental health deficit. Potential revenues which the General Assembly earmarked in the Budget Reconciliation and Financing Act to address the mental health funding issues were not considered in the spending affordability process due to uncertainty about their availability.

The calculation of the spending affordability limit was consistent with the recommendations of the Spending Affordability Committee.

Operating Budget

Spending Limit

Recommendation: Appropriations subject to the spending affordability limit shall be 3.95% over appropriations approved at the 2001 session, subject to the revised methodology described in this document. This limit would provide for a \$543.2 million increase in appropriations at the 2002 session, resulting in expenditures of \$14,295.6 million applicable to spending affordability. This limit is based on personal income growth in Maryland forecasted to be 3.6% in calendar 2002 and 5% for calendar 2003. Given the extreme uncertainty in the outlook, the committee believes it prudent to choose a mid-range limit.

Evaluation: The budget as enacted by the General Assembly is within the spending limit recommended by the Spending Affordability Committee. The final appropriations applicable to spending affordability totaled \$14,224.1 million, which is \$71.5 million below the limit recommended by the committee. The increase in applicable spending is 3.43% or \$471.7 million. An exhibit outlining the details of this analysis is attached.

Sustainability

Recommendation: The committee recommends that future sustainability be a primary consideration in the development of the fiscal 2003 general fund budget and that the imbalance between revenues and expenditures be erased as soon as practicable.

Evaluation: In January 2002, the Department of Legislative Services advised that under existing law the Governor's proposed fiscal 2003 budget would produce fiscal 2004 general fund spending which could not be sustained by the revenues forecast by the Board of Revenue Estimates. Adopting a combination of fiscal 2003 budget cuts which will save the State almost \$300 million in fiscal 2004 and revenue generating initiatives which will raise almost \$200 million in fiscal 2004, the General Assembly narrowed the projected imbalance from \$1.3 billion to \$793 million. Enactment of Senate Bill 856, the Bridge to Excellence

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in Public Schools Act, which mandates increases in education spending in fiscal 2004 in excess of the revenues generated by raising the tobacco tax to \$1.00, brings the projected fiscal 2004 gap to \$875 million. **By reducing the fiscal 2004 budget gap from \$1.3 billion to \$875 million, the General Assembly complied with the recommendation of the Spending Affordability Committee.**

Temporary Assistance to Needy Families (TANF)

Recommendation: Maryland receives \$229.1 million annually through the federal TANF block grant. Funding in fiscal 2003 is uncertain as congressional reauthorization is scheduled for calendar 2002. In fiscal 2001 and 2002, excess TANF dollars available from prior years were funding ongoing State programs, but the surplus will be completely exhausted by fiscal 2003. Financing options for future years include the use of monies set aside for this purpose in the Dedicated Purpose Fund, reducing transfers of TANF dollars to the Child Care Block Grant, or substituting general funds for federal funds in programs currently funded with TANF. The committee recommends that the General Assembly closely monitor the use of TANF funds in the fiscal 2003 budget.

Evaluation: The Governor's fiscal 2003 spending plan:

- committed \$237.5 million of TANF dollars to ongoing programs exhausting all but \$0.4 million of the existing surplus and spending \$8.5 million more than the State receives on an annual basis;
- withdrew all but \$0.7 million of the funds reserved in the Dedicated Purpose Fund to cover future welfare costs; and
- failed to provide sufficient funding to support a planned increase in the Temporary Cash Assistance (TCA) grant.

Concerned about the sustainability of programs funded with TANF, the General Assembly restored \$10.7 million to the Dedicated Purpose Fund bringing the balance to \$11.4 million, delayed the TCA grant increase from October 2002 to January 2003, and identified a funding source for the grant increase, authorizing the Governor to finance the fiscal 2003 and 2004 costs by transferring cash from the Joseph Fund.

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Revenue Stabilization and Fund Balances

Recommendation: The committee recommends the prudent use of the Revenue Stabilization Fund ("Rainy Day Fund") to address general fund needs. At the end of fiscal 2002, the committee expects the Rainy Day Fund to hold about \$566 million, \$82 million in excess of the 5% of general fund revenues established as its target balance. Fund balances and reserves are a conspicuous feature of State finance and are relied upon by bond rating agencies and others as one measure of fiscal health. Accordingly, the committee recommends that the State retain a combined balance equivalent to 5% of general fund revenues in the Rainy Day Fund and general fund at the end of the budget period.

Evaluation: With a projected fiscal 2003 combined general fund and Rainy Day Fund closing balance of \$514.1 million, \$21.9 million over 5% of general fund revenues, the General Assembly complied with the committee's recommendation. The projected closing balance for the Rainy Day Fund is \$500.5 million, \$8.3 million over 5% of estimated general fund revenue. A closing general fund balance of \$13.6 million is anticipated.

Capital Budget

General Obligation Debt

Recommendation: The committee notes the recommendation of the Capital Debt Affordability Committee that \$520 million in general obligation bonds may be authorized at the 2002 session but finds that an upward revision to the limit is appropriate.

Even under conservative economic assumptions, \$1.2 billion in debt capacity exists, in addition to the \$520 million level recommended by the Debt Affordability Committee. Some portion of this additional capacity could be used to re-finance projects previously authorized as general fund PAYGO. It could also be helpful in relieving some portion of the roughly \$1 billion in future capital commitments that the 2001 capital plan supported with general funds.

Accordingly, the committee recommends increasing by up to \$200 million the limit proposed by the Capital Debt Affordability Committee for the 2002 session. The use of this additional bond capacity shall be limited to previously authorized PAYGO projects. This would leave \$1.0 billion in capacity in the event of an extraordinary circumstance, while giving the Governor and the legislature considerable flexibility to restructure the capital financing in the context of the total budget needs of the State.

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Evaluation: The Maryland Consolidated Capital Bond Loan of 2002 authorizes general obligation debt totaling \$731.1 million. This amount is offset by deauthorization of \$11.1 million in previously authorized debt resulting in a net increase of \$720 million. The general obligation bond amount includes \$328.7 million to replace previously authorized general fund PAYGO. General obligation funding for new projects equals \$402.4 million. **The General Assembly complied with this recommendation of the Spending Affordability Committee.**

PAYGO in the Capital Plan

Recommendation: In order to ensure that State funds will not be overcommitted in future years, general fund PAYGO out-year funding in the *Capital Improvement Plan* should be limited to only those uses for which tax exempt debt cannot be used (e.g., economic development, housing, and environment).

Evaluation: **The Budget Reconciliation and Financing Act includes a provision codifying this recommendation of the Spending Affordability Committee.**

Academic Revenue Debt

Recommendation: The committee concurs in the recommendation of the Capital Debt Affordability Committee that \$40 million in new academic revenue bonds may be authorized at the 2002 session.

Evaluation: \$40 million of new academic revenue bonds were authorized at the 2002 session for projects within the University System of Maryland and Morgan State University. **The legislature complied with this recommendation of the Spending Affordability Committee.**

Operating Maintenance Exclusion

Recommendation: The committee notes that there is a backlog of identified operating maintenance projects at State facilities that totals over \$53 million. A backlog also exists for higher education projects. These problems, if left uncorrected, will continue to deteriorate and will eventually qualify for capital funding as major repair projects. It is more cost effective to make immediate repairs. In an effort to reduce this backlog, the committee continues to support the exclusion from the spending affordability calculation of up to \$40 million for operating maintenance projects funded through the Department of General

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Services' operating maintenance program and higher education institutions. Projects qualifying for this exclusion should not be large construction or basic ongoing maintenance projects.

Evaluation: The fiscal 2003 budget includes \$2.5 million for critical maintenance to State facilities, of which \$0.5 million was excluded from the spending affordability calculation. In addition, \$19.3 million of higher education facilities maintenance was excluded. **The budget approved by the General Assembly complies with the Spending Affordability Committee's recommendation.**

Transportation Debt

The draft *Consolidated Transportation Program* (CTP) anticipates the issuance of new debt through fiscal 2007 resulting in a 85% increase in outstanding debt over fiscal 2001 levels. The committee is concerned that this increase in debt would exhaust the Transportation Trust Fund's debt capacity thereby making it more difficult to maintain the capital program if Trust Fund revenue growth slows.

Based on current revenue forecasts and the proposed increase in debt, the State transportation capital program (including State and federal funds) will average \$1.37 billion each year through fiscal 2007. To the extent transportation revenues exceed those projected by MDOT, those additional funds should be used to reduce the amount of bonds sold.

Evaluation: The January CTP maximized the issuance of new debt through fiscal 2007 resulting in an 85% increase in outstanding debt over fiscal 2001 levels. The Budget Reconciliation and Financing Act of 2002 (Chapter XXX) reduced general fund transfers to support the Woodrow Wilson Bridge and the Addison Road to Largo Metrorail extension projects, made other revenue adjustments, and increased the statutory transportation debt limit from \$1.2 billion to \$1.5 billion. However, through fiscal 2001, debt outstanding totaled \$648 million, the lowest level of debt since fiscal 1989.

State Positions

Recommendation: Given current financial conditions, the prudent allocation of personnel resources is critical. The committee recognizes the necessity of the hiring freeze on non-essential personnel instituted by the Governor for the duration of fiscal 2002 and all of fiscal 2003 as a way to constrain State spending. The budget committees are urged to examine whether some of the positions held vacant under the hiring freeze or other positions could be permanently abolished without seriously harming the operations of State government. In that personnel costs comprise approximately a quarter of the State operating

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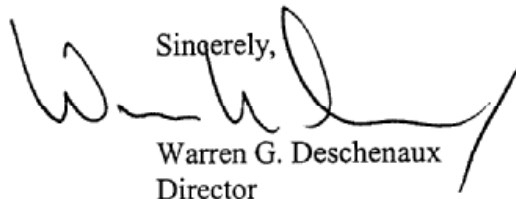
budget, any effort to permanently reduce personnel spending will help resolve the structural budget gap.

To further constrain the growth in State spending, the committee recommends that the creation of new positions during the 2002 session be limited to:

- critical public safety and homeland security needs;
- facilities scheduled to open in fiscal 2003; and
- addressing workload increases in higher education and essential services at 24-hour facilities.

Evaluation: The fiscal 2003 allowance submitted by the Governor increased the number of full-time equivalent regular employees by 1,518. The position growth was concentrated in higher education (323.4 positions), judicial and legal functions (316 positions), public safety (262 positions), and the Department of Human Resources (147.1 positions). Most of these positions fall within the priority areas for new staff identified by the Spending Affordability Committee.

The General Assembly abolished 607.1 regular positions, all of which were either new or vacant. In addition, language was added to the budget bill capping the number of full-time equivalent (FTE) regular employees for fiscal 2003 at 75,600 in executive branch agencies. The cap on regular employees will require the abolition of 3,405 positions and save the State at least \$11 million in general funds in fiscal 2003. Filled positions are not expected to be abolished since there are almost 6,000 currently vacant positions in the State. A cap of 8,800 on non-exempt contractual employees in the executive branch was also adopted which will result in the abolition of approximately 340 contractual positions. **The actions of the General Assembly are consistent with the recommendation of the Spending Affordability Committee.**

Sincerely,

 Warren G. Deschenaux
 Director

WGD/DCR/jac

Enclosure

cc: Members, Spending Affordability Committee
 Secretary T. Eloise Foster
 Mr. Karl S. Aro

Spending Affordability Compliance Calculation *

2002 Legislative Session

(\$ in Millions)

2001 Session Spending Affordability Appropriation **		\$13,752.4
2002 Session Budget As Introduced		
Deficiencies	123.9	
Allowance	16,235.3	
		\$16,359.3
Exclusions from the Limit in Budget As Introduced		
<i>Fiscal 2002 Deficiencies</i>		
Withdraw appropriation to Dedicated Purpose Fund for Welfare		\$9.6
Homeland Security		(10.9)
Dedicated Purpose Fund to offset Tax Amnesty withdrawal		(30.0)
Subtotal		(\$31.3)
<i>Fiscal 2003 Budget</i>		
PAYGO		(\$262.6)
Department of Transportation – Capital		(824.9)
Reserve Fund		(186.0)
Teacher Salary Challenge		(33.3)
State Use Industries		(38.9)
Uncompensated Care		(40.8)
Maryland Port Administration – Operations		(85.1)
9-1-1		(27.6)
Higher Education Facility Renewal		(15.5)
IWIF Unfunded Liability		(16.0)
Budget Reconciliation and Financing Act – Tourism Reduction		(2.5)
Mass Transit Administration – COPs Debt Service		(3.1)
Department of General Services – Deferred Maintenance		(0.5)
State Lottery Agency		(52.6)
Election System Development Grants		(3.3)
Federal Funds Counted as Current Unrestricted Funds		(80.5)
Maryland Aviation Administration – Operations		(95.8)
Other		(0.4)
Subtotal		(\$1,769.5)
Total Exclusions		(\$1,800.8)
Legislative Reductions to Budget As Introduced		(\$369.2)
Spending/Withdrawals Contingent on Enactment of Legislation (Net of Exclusions)		
Budget Reconciliation and Financing Act		(\$49.6)
Bridge to Excellence in Public Schools Act		84.5
Total Spending		\$34.9
2002 Session Spending Affordability Appropriation		\$14,224.1
	increase	471.7
	percent	3.43%
2002 Session Spending Affordability Limit (3.95%)		\$14,295.6
Amount Over (Under) Limit		(\$71.5)

* Federal funds are excluded from table as they are not counted toward Spending Affordability.

** Adjusted to reflect methodological changes recommended by the Spending Affordability Committee in December 2002.

Appendix 7

State of Maryland Summary of Expenditures by Fund Type and Fiscal Year Fiscal 1979-2003 Legislative Appropriation (\$ in 000s)

Fiscal Year	General Funds	Special Funds	Federal Funds	Current Unrestricted Funds	Current Restricted Funds	Total
1979	2,313,057	1,080,115	778,330	0	0	4,171,502
1980	2,621,468	1,414,707	905,657	0	0	4,941,832
1981	2,852,165	1,294,927	1,244,976	0	0	5,392,068
1982	2,929,916	1,412,651	1,248,316	0	0	5,590,883
1983	3,227,327	1,639,470	1,357,760	0	0	6,224,557
1984	3,435,057	1,713,902	1,316,489	0	0	6,465,448
1985	3,780,718	1,746,801	1,471,030	0	0	6,998,549
1986	4,161,853	1,824,300	1,428,137	365,174	162,629	7,942,093
1987	4,489,951	1,943,133	1,512,975	402,753	177,192	8,526,004
1988	4,895,483	1,929,676	1,657,899	463,884	185,764	9,132,706
1989	5,462,679	2,066,492	1,763,376	507,619	202,634	10,002,800
1990	6,046,031	2,466,194	1,875,861	536,456	237,940	11,162,482
1991	6,203,897	2,365,862	1,989,826	611,106	261,722	11,432,413
1992	6,233,667	2,128,286	2,373,735	675,148	284,301	11,695,137
1993	6,388,893	2,133,007	2,383,012	674,589	299,498	11,878,999
1994	6,601,990	2,340,482	2,511,145	761,128	335,055	12,549,800
1995	7,000,445	2,743,400	2,845,257	799,806	357,497	13,746,405
1996	7,388,158	2,791,654	2,942,640	862,879	381,437	14,366,768
1997	7,379,861	2,832,838	3,396,282	951,817	421,811	14,982,609
1998	7,859,069	2,755,860	3,449,914	988,259	462,435	15,515,537
1999	8,543,926	3,040,855	3,532,759	1,048,067	507,637	16,673,244
2000	9,031,525	3,379,474	3,779,703	1,119,139	556,390	17,866,231
2001	10,241,937	3,623,283	4,344,231	1,232,503	627,282	20,069,236
2002	10,560,953	3,754,525	4,905,428	1,299,311	684,690	21,204,908
2003	10,564,653	3,908,987	5,186,037	1,365,682	716,888	21,742,247

Note: 2002 represents the working appropriation through the first six months of the fiscal year, and includes deficiencies approved during the 2002 session.

2003 represents the legislative appropriation as of July 1, 2002.

Source: Comprehensive Annual Financial Report of the Comptroller, and Department of Legislative Services

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